BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

SEPTEMBER 1937

The Condition of BUSINESS

GOOD FALL PROSPECT. The domestic business outlook for the remaining months of the year is favorable and the same forward trend is evident abroad. People and governments are in a spending mood and there is no immediate likelihood of any change in this respect. War and the fear of war can hardly be called good for business, in any sense, but the fact stands out that rearmament purchases are playing a vital economic rôle throughout the world. There are many points of resemblance between recovery here and abroad but there is one chief difference, namely, that our Government is still supporting millions of citizens through relief and work projects.

CREDIT DEMANDS. The demand for bank credit continues to show a promising trend but still lags far behind the supply. Whatever increase there has been thus far has not been enough to affect in any degree the general level of interest rates. The anticipated expansion of commercial and industrial activity this Fall will certainly bring an increased demand for loans and a higher volume of new security offerings.

PROBLEMS AWAITING SOLUTION. There are ample reasons for optimism regarding the immediate future and if some solution could be found for the unbalanced Federal budget, swollen relief rolls in a period of relative prosperity, the expensive process of taking gold out of world circulation, and the ultimate problem of paying the freight without ruinous taxation or currency depreciation, all would be well.

THREE MONTHS RESPITE. The adjournment of Congress without passing certain hastily prepared pieces of legislation gave a boost to business confidence. The wage and hour measure, the reorganization bill, the proposed changes radically altering the banking structure, and other matters will undoubtedly come up for reconsideration early in 1938. Nevertheless business will have several months respite from uncertainty and the country will have several months to think.

SPENDING MONEY. In spite of some nervousness in the commodity price list, induced by prospects of huge crops of wheat, cotton and other products, the farmers of the country will have more money than usual to spend this Winter and a good part of it will go for farm implements, automobiles, radios, electrical equipment and all the various lines of goods that reach their market through the large mail order establishments. This is like returning to pre-New Deal conditions when good times and bountiful crops were synonymous.

One difficulty at this time is the matter of anticipating prices of commodities. Owing to the number of artificial controls now operating, and the vagaries of governmental regulation, it is more important to study the front page news than crop statistics and price trends.

In the industrial areas wages are being well maintained, losses from strikes seem less likely to constitute an important factor and payrolls can be expected to show a substantial increase before the end of the year. The vacation season now drawing to a close furnishes impressive evidence of the public's inclination to spend. All indications are that the money used for steamship, rail, motor and air travel, hotel and other Summer accommodations has reached an unsurpassed total.

EXPECTATIONS. Retail trade has not been quite up to expectations for several weeks but the trouble may have been undue expectations rather than unseasonal sluggishness. In some parts of the country, notably the middle Atlantic and parts of the Midwest, the sale of goods is registering steady gains and the general level is well above last year.

BETTER INDUSTRIAL OUTLOOK. Among other developments of a favorable nature has been the persistent hardening of public sentiment against lawless methods in labor disputes. The improvement in this situation has resulted in the better elements regaining labor leadership, and in labor leadership regaining better judgment.

A constructive side of the present day industrial picture which may not be receiving notice commensurate with its importance is the tremendous progress being made behind the scenes in scientific and chemical research. Doubtless there was never a period in history when discoveries of such great economic significance were under way and being successfully completed. The rapid spread of the farm chemurgic movement with its potentialities for the use of agricultural products in industry, the cultivation of improved varieties of food products at any season of the year by artificial processes, amazingly efficient methods of preserving and distributing perishable goods, important projects in transportation and communication, television and new departures in building construction and living comfort, are a few of the things being brought to high levels of perfection.

The search for a reasonable solution of our gold problem proceeds in several directions. With this country taking the part of an unwilling Midas, large quantities of the metal mined abroad are being offered here for sale and reburial.

Business activity is not much below the peak of 1929. At the bottom of the depression in 1932 and the first part of 1933, we were operating at about 60 to 65 per cent of the 1929 level. At present, by the same comparison, we are within 2 or 3 per cent of the 1929 top. The latest figures of the Census Bureau show that the consumption of cotton in the United States for the year ending July 31, 1937, was the highest in our history. Electric power production has been exceeding all past records by a wide margin. Automobile production is now running a little under last year but there are special factors to account for this and the trend at present is sharply upward. Steel production is averaging well above last year and the prospects this Fall are for further substantial increases in output.

SLOWER AND STEADIER. The improvement in business has been progressively slower during 1935 and 1936 than in 1933, 1934 and 1935, but infinitely more steady. The net improvement in 1934 and 1935 combined was about equal to that of 1933. The improvement in 1936 was of a substantial nature and equalled approximately the expansion that took place in the two-year period 1934–35. Thus far in 1937 there have been minor fluctuations but no important change from the general level of business activity in 1936. Considerable ground was lost in the first two months of this year but this has been recovered and the Summer lull was much less than might reasonably have been expected, in view of the uncertainty in Washington and other retarding influences.

Summer for Summer, however, the level of business activity this year has been enough higher to warrant considerable optimism for the Fall.

Meanwhile, despite the ever present inflation virus and the prospect of generous dividend payments, it has been many a year since the velocity of trading on the stock exchanges has been so low. In New York, for instance, one must go back more than a decade to find a parallel to the snail's pace of the past few months. The outlook for continuously rising profits from industry seemed to be clouded over by rising costs of manufacture.

How to prepare yourself for doing nothing

DEEP in the soul of virtually every man is a good healthy hankering to quit work—to sometime devote his days to doing nothing.

And this is not mere "laziness." It is the natural and wholesome desire to fill one's lungs with the clean sweet air of freedom. To make the chief objective of each day's effort the expansion of the soul rather than the filling of the stomach.

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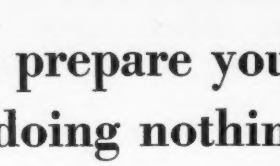

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NEW BOOKS

Studies in Banking

SOMEWHAT more than a year ago the Association of Reserve City Bankers asked the National Bureau of Economic Research to suggest means of determining what should be known about credit and financial institutions in order to meet urgent financial problems. An "exploratory committee" on financial research, named by the Bureau, went to work at the answer to this question, and the result of this group's studies now appears in two volumes under the title *A Program of Financial Research.* The books are published by the Bureau in cooperation with the Reserve City Bankers.

Volume I ($1) contains two parts of the report of the exploratory committee, composed of Winfield W. Riefler, of the Institute for Advanced Study, Princeton, as chairman; Walter Lichtenstein, vice-president, First National Bank of Chicago and chairman of the Committee on Nationwide Banking Research, Association of Reserve City Bankers; David Friday, chairman of the Committee on Banking and Credit, Social Science Research Council; and J. H. Riddle, economist, Bankers Trust Company, New York. In this volume are the committee's recommendations, emphasizing the need for financial research and for a continuing organization to foster and coordinate it. The committee also suggests a number of projects and presents tentative drafts thereof.

Volume II ($1.50), constituting Part 3 of the report, outlines financial research studies now being done by public agencies, bureaus and institutes, private organizations and private investigators. Among the projects covered in this inventory are various studies undertaken under auspices of the American Bankers Association, including a number of thesis studies by students of the Graduate School of Banking.

Establishment of a central staff, organized by and attached to the National Bureau of Economic Research, is recommended, although it is advocated that the projects be carried out at various places and by various agencies.

* * *

A comprehensive study of a nation's finances and financial institutions is provided by Arthur Z. Arnold in his *Banks Credit, and Money in Soviet Russia.* (Columbia University Press, New York, $4.) Dr. Arnold, a member of the economics department, College of the City of New York, observes that notwithstanding the many books about modern Russia, there had been none, even in Russian, giving an adequate picture of the field covered by his title.

His volume fills that gap admirably. It reviews the history of Russian money and banking in four periods: before 1860, between 1860 and 1914, from the outbreak of the World War to the revolution, and during the post-revolutionary period. The study of Soviet finance is projected against the background of old Russia and of a national economy which, during modern times, has evolved through all economic stages.

* * *

A brief analysis of the profitableness of commercial banking is included in *How Profitable Is Big Business?* (Twentieth Century Fund, Inc., New York, $2), written after a two-year study. Special consideration is given to banking profits because of banking's connection with industry and business. A summary of the chapter covering this subject contains these observations:

"Of 7,403 national banks, 4,000 made profits of 6 per cent or more during the five-year period ending June 30, 1930; 1,396 made from 3 up to 6 per cent; 836 made up to 3 per cent; 1,171 had deficits.

"When these banks are grouped by the size of their loans and investments, it appears that the smaller banks had poorer profit records than the larger. Thirty-five per cent of the smallest class had deficits. The proportion of unprofitable institutions decreased continuously with increasing size.

"Forty-six per cent of the 7,403 banks had deficits or profits of less than 6 per cent, but only 20 per cent of the largest banks failed to earn 6 per cent or more. On the other hand, 74 per cent of the smallest banks fell short of this level, which is estimated to be about the minimum necessary to set aside adequate reserves and pay dividends. . . .

"This is the situation in regard to profits on invested capital. When, however, the ratio of gross earnings to earning assets or loans and investments is computed, it is found that the smallest banks have generally shown higher ratios than the larger ones, although there is no constant decrease in the rate of gross earnings as banks advance in size. The relationship between the size of earning assets and the several items of expense explains, in general, why, in spite of higher gross earnings, net profits in terms of earning assets are smaller for smaller banks than for larger institutions. Furthermore, because earning assets per $100 of invested capital show a marked tendency to decrease as banks decrease in size, it is to be expected that net profits on invested capital would show a definite increase as banks advance in size."

Books in Brief

The Problem of Business Failures. By Paul J. FitzPatrick. (The Dolphin Press, Philadelphia.) Dr. FitzPatrick, who is in the department of economics, Catholic University of America, deals primarily with the internal causes of business failures—lack of working capital, over-investment in fixed assets, unwise dividend policies, poor business location and other evidences of inefficiency of management. His study is mainly restricted to manufacturing, wholesaling and retailing businesses in the period 1920–1929.

Business Law Decisions. (Commerce Clearing House, Inc., Chicago, $1.) This book provides the full texts of the leading decisions affecting business, except taxation, handed down by the United States Supreme Court during its October term, 1936. Included are the cases popularly known as the Wagner Labor Act, social security, Washington minimum wage law, Fair Trade Act, corporate reorganizations, Railway Labor Act, Frazier-Lemke Act, the "gold clause", and about a dozen others.

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WASHINGTON BRIEFLY

Washington, D. C.

WHEN CONGRESS TAKES UP a new comprehensive farm bill next January or in a special session the struggle will be more a contest between professional farm leaders for prestige than a battle of ideas. Present indications are that it will be a three-cornered fight. No one yet knows exactly what the Administration will favor except that the basis will be Secretary Wallace's ever-normal granary proposition. In the final showdown the Administration will undoubtedly attempt to shape the legislation.

* * *

A SECOND PARTY to the controversy will be the American Farm Bureau Federation, which favors its own new form of the A.A.A. as introduced by Representative Flanagan of Virginia. This proposes rigid crop control along familiar lines and a certain amount of lip service to the Wallace granary plan. Apparently the Administration is afraid of this measure. Many authorities pronounce it quite as unconstitutional as the original A.A.A. and it has features which do not appeal to the cotton growers of the South since, of the total of perhaps $600,000,000 of farm bounties contemplated, half will go to corn growers alone. The bill, in its entirety, fails to enlist the support of the Grange and the Farmers' Union, the other two principal farmer organizations.

* * *

THE THIRD PARTY to the controversy will be the supporters of the plan of Representative Marvin Jones of Texas, chairman of the House Committee on Agriculture. The Jones bill proposes to amplify the present Soil Conservation Act by increasing the bounties, which would be paid only to farmers who comply fully with the soil conservation requirements, and to provide for the control of marketing, as differentiated from production, by a system of loans which practically embodies Secretary Wallace's adaption of the seven fat years and seven lean years scheme of Moses. The Jones bill seems to have the rather half-hearted support of the Grange and the Union.

* * *

THE JONES BILL will most probably become the basis for next Winter's discussion but there is no telling what form legislation will finally take. Truth

is, the leaders have disagreed on legislation during the past session largely because the farmers themselves were rather indifferent to farm legislation. Most of them have been too busy planning how they were to spend this year's large income to be bothered much about doings down in Washington.

* * *

HOW MUCH STEAM there will be back of legislation next January depends largely upon the outcome of this year's crop sales. If prices continue good, though perhaps lower than the abnormally high level of early Summer, and crops turn out as well as the Government prophesies, the net income of the farmers will probably be large enough to satisfy, temporarily, all but the chronic agitators.

* * *

IN THIS EVENT Congress may be able to take time enough for serious consideration of a long range bill which practically all members favor, next year being an election year. If net crop results are not up to farmer expectations a new farm bill will be passed hastily and instead of being a well considered measure which committees have had time enough to work out during the recess, it is likely to be an uncoordinated composite of various plans that will fully satisfy nobody.

* * *

SOMETIME THIS FALL, probably in October, the Federal Reserve Board will announce modifications of Regulation T concerning stock market margin loans. The indications are that there will be no change in the present 55-45 per cent margin requirements but the changes are expected to plug the holes in the present regulation, to tighten control of the use of credit for margin trading, and to remove inequities in the present system. Among practices to be affected are short selling, when-issued trading, and certain minor practices frowned upon by the S.E.C.

* * *

THE RESERVE BOARD'S ACTION, in fact, is direct cooperation with the S.E.C. and the latter is doing its share of new regulating by its recent announcement of rules to govern over-the-counter markets. The new regulations define practices which are "manipulative, deceptive or fraudulent" and apply the rules to all brokers and dealers doing an over-the-counter business, including those dealing in Federal, state and municipal securities. They require disclosure by a broker or dealer

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"Unforeseen events . . .
need not ~~so often~~ change and shape the course of man's affairs"

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A toy balloon – or the biggest power plant boiler – is no stronger than its "weak spot." Design and installation of the boiler may be perfect...but deterioration, pitting, or defective safety appliances may give internal pressure its opportunity —and everything blows sky-high!

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(CONTINUED FROM PAGE 6)

financially interested in distribution by receiving a fee for "investment advice". This disclosure must be made to a customer before any deal is completed.

* * *

ONE BITTER CONTEST in the next session of Congress which will certainly involve a presidential veto if the bill is passed will arise over the proposal to reduce the rate of interest on H.O.L.C. loans from 5 to 3½ per cent and to extend the period of amortization of loans from 15 to 20 years. A bloc of 45 members of the House is back of this proposition and, 1938 being an election year in which a million H.O.L.C. debtors will have votes, they intend to push the bill to the limit. Inasmuch as the measure would either render the H.O.L.C. insolvent in two or three years or involve a bounty of $50,000,000 annually from the Treasury, not to mention increased losses on loans, it is easy to see what the Administration thinks of it.

* * *

UNFORTUNATELY FOR TREASURY window dressing the realization on "recoverable assets" of the various governmental loan agencies during the current year is likely to fall far below that of last year and since, in the bookkeeping of the nation's counting house, these repayments have been accounted as income which could be applied to current expenditures and thus reduce the apparent deficit, the change will make a considerable difference in the Treasury's showing.

* * *

IN THE TREASURY statement for August 9, for example, it is indicated that the excess of expenditures over receipts for the current fiscal year to that date was $263,074,968 as compared with $135,487,839 in the same period last year. On the face of things this increase is partly accounted for by the deficit due to the increase in the ordinary expenditures of the Government in spite of greatly increased revenues.

* * *

LAST YEAR THE DEFICIT on ordinary expenditures for this period was $83,177,943; this year it is $144,823,913, although there was an increase of $156,000,000 in revenue. When one gets into the account for recovery and relief, however, one sees considerable light. Last year, in this period, the Commodity Credit Corporation turned back into the Treasury a net of over $67,000,000, the R.F.C. a net of more than $195,000,000 and various other agencies smaller sums, the whole making a net repayment total of about $233,000,000 over expenditures for this particular group.

* * *

THIS YEAR NET REPAYMENTS from these agencies in the period was $7,728,982. Hence the showing for relief for the current year is not so bad. Last year the Treasury counted on a net return of $425,000,000 from the R.F.C. and actually realized $333,864,000. This year it is counting on $150,000,000 and indications are that it will be lucky if it receives two-thirds of that amount. The fact is that the "recoverable assets" which are not slow or doubtful are being exhausted.

* * *

RECENT REGISTRATION STATEMENTS filed with the S.E.C. indicate that the principal corporate financing in the next few months is likely to be done by stockholders through prior rights given them to subscribe for new stock or convertible bonds. Underwriters may have some part in the program but it will be only in the way of handling the scraps of the feast. For example, Allis-Chalmers Manufacturing Company and the Bethlehem Steel Corporation are issuing $25,321,500 and $48,000,000, respectively, in convertible debentures and bonds, stockholders being given the right to subscribe before any public offering is made. The connection between this method of financing and the undistributed profits tax seems rather evident.

* * *

THE TEXT OF THE BROOKINGS INSTITUTION report recommending abolishment of the office of Comptroller of the Currency, which was outlined in these columns several months ago, has finally been made public. The report indicates that the Institute's investigators gave careful consideration to the suggestion of consolidating the office of the Comptroller, the Federal Reserve and the F.D.I.C. into one agency but decided that such a consolidation would be a long step toward a unified banking system involving political and economic issues more than administrative efficiency and economy, to which the report is limited.

* * *

IT RECOMMENDS that the office of the Comptroller be abolished, since all the duties of the office can be assigned to other agencies with closely related functions. "There are four bank examining agencies," says the report, "when

(CONTINUED ON PAGE 10)

THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

Statement of Condition, June 30, 1937

RESOURCES

Cash and Due from Banks		$ 685,719,656.00
U. S. Government Obligations, direct and fully guaranteed		618,839,776.85
State and Municipal Securities		59,046,899.84
Other Bonds and Securities		160,690,742.31
Loans, Discounts and Bankers' Acceptances		809,978,015.46
Banking Houses		38,006,949.27
Other Real Estate		4,901,381.97
Mortgages		11,965,269.58
Customers' Acceptance Liability		25,080,275.32
Other Assets		12,325,458.04
		$2,426,554,424.64

LIABILITIES

Capital Funds:		
Capital Stock	$100,270,000.00	
Surplus	100,270,000.00	
Undivided Profits	27,949,972.58	
		$ 228,489,972.58
Reserve for Contingencies		17,747,941.65
Reserve for Taxes, Interest, etc.		1,810,642.17
Deposits		2,136,387,408.97
Acceptances Outstanding		28,401,309.96
Liability as Endorser on Acceptances and Foreign Bills		8,262,300.92
Other Liabilities		5,454,848.39
		$2,426,554,424.64

United States Government and other securities carried at $197,410,591.49 are pledged to secure public and trust deposits and for other purposes as required or permitted by law.

Member Federal Deposit Insurance Corporation

(CONTINUED FROM PAGE 8)

there is need of only one. The Comptroller of the Currency is the executive head of the national banking system, yet such important matters as control of interlocking directorates under the Clayton Act and permission for national banks to establish branches are delegated to the Board of Governors of the Federal Reserve System. The Federal Deposit Insurance Corporation is the guardian of the deposit insurance fund but it has no control over the admission of banks to the protection of that fund (except non-member state banks); neither can it investigate the solvency of a national bank except through the Comptroller of the Currency or with his consent.

The division of responsibility between these agencies, which is obviously the result of historical accident rather than any consistent plan, makes for inefficiency."

* * *

NEW PROPOSALS for controlling "hot money" imports contemplate either a heavy increase in taxes on foreign holdings of American securities—probably by the income route—or requiring commercial banks to keep the deposits of such money now shunted into the Treasury and to maintain additional 100 per cent reserves against them.

* * *

THE FEDERAL HOME LOAN BANK system is one lending agency of the Government which is returning a profit to the Treasury. Dividends averaging 3.7 per cent annually have been paid on the capital stock of the banks for the first half of 1937 and the capital of $120,514,000 owned by the United States comes in for its share.

* * *

SOME FURTHER INDICATION of the Government's attitude toward international currency stability has recently been provided. Not long after President Roosevelt wrote Senator Thomas that this country was unwilling to fit itself into any "rigid pattern", Wayne C. Taylor, Acting Secretary of the Treasury, in a letter to Representative Dirksen of Illinois, affirmed the Treasury's willingness "to discuss with any nation or group of nations joint efforts toward the maintenance of stability of international monetary matters." It was explained by officials that what America wants, at least for the present. is "stability without stabilization".

GEORGE E. ANDERSON

FOLLOWING are Mr. Siver's statements:

"Our Interest Department Posting Machine installation is working very satisfactorily.

"Although we have had the machine in operation but two months, the advantages we derived from its use were apparent from the start.

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Bank Real Estate

"CLEAN-UP" sales of the real estate holdings of banks in liquidation have been going on in several parts of the country, especially in the southern states, for the past two years. They are now being carried into eastern and northern states, especially in the metropolitan district of New York City and its immediate vicinity.

Commencing the latter part of August a series of auction sales is being held to dispose of properties of a number of national banks in receivership, which may run as high as 60 and involve as many as 1,000 pieces of property, the exact number in each case being undetermined until the results of the earlier sales can be known and further contracts made.

The series of sales is experimental in the fact that it is the first of the sort in the eastern states, but it is in keeping with policies and methods adopted by the Comptroller of the Currency as far back as 1935. In that year the Comptroller decided to make an effort to wind up bank receiverships more promptly so as to give depositors and other creditors more money more quickly. As a rule the cost of a bank receivership is covered by the income from the assets of the defunct institution, sometimes a little profit being realized for the benefit of creditors. But, naturally, as the better assets are disposed of the income dwindles, while expenses often continue at substantially the same rate as at the beginning of the receiverships. Where receiverships are long drawn out the cost of the latter period of the trust is out of proportion to the income. This is especially the case where a considerable portion of the assets consists of unproductive real estate or real estate which is decreasing in value by reason of obsolescence or otherwise.

To avoid this loss to depositors and to benefit further the community by effecting the early release of its funds frozen in bank real estate assets, it was decided to experiment with the auction sale method. The plan was to hold the sale of the property after an intensive advertising campaign, in which the community concerned was called upon to help itself by purchasing the properties offered.

For a number of reasons a beginning was made in the southern states. The first sale of importance was held at Gulfport, Mississippi, in 1935. Real estate holdings of the First National Bank, which had been in receivership since 1931, represented a problem which was considered impossible of practical solution. The bank held 344 pieces of real estate ranging from unimproved farm land to business and residential property, most of which was unproductive. Experts declared it was impossible to dispose of the bank's property without severe loss. However, after an intensive campaign under a real estate expert the properties were sold at auction and netted the receivership upward of 70 per cent of the original estimated liquidation value, values estimated

States	*Number of sales*	*Number of items sold*	*Receivers' estimated liquidation values*	*Total auction sale price obtained*
ALABAMA	19	1,200	$600,766	$533,093
FLORIDA	10	723	307,871	319,265
GEORGIA	12	137	113,089	72,996
ILLINOIS	9	37	108,460	74,594
MISSISSIPPI	11	855	782,835	556,974
SOUTH CAROLINA	8	109	123,965	92,260
TEXAS	3	39	14,040	16,198
Total	72	3,100	$2,051,026	$1,665,380

Auctions

By GEORGE E. ANDERSON

in 1931. In the course of the following year similar campaigns followed by similar auction sales were conducted in six southern states and one northern. The record up to October 31, 1936, is shown in the table on page 14.

Since last October about a score of sales have been held, but by reason of questions of title and other difficulties it is as yet too early to tabulate the results. In the record so far tabulated sales in Alabama netted 88.8 per cent of the estimated liquidating value; in Florida, 103.7 per cent; in Georgia 64.5 per cent; in Illinois 68.7 per cent; in Mississippi, 71.1 per cent; in South Carolina, 74.4 per cent; and in Texas, 115.7 per cent. The average for all sales was 81.2 per cent.

The wide variation in the results of these sales gives considerable food for thought. Without definite knowledge of the exact condition of the real estate market in the several states, present and prospective, it is impossible to judge fairly of the wisdom of the course taken in each case. It is evident from the varied returns that the best results depend upon proper timing—upon suiting the sales not only to the times when the public is ready for them psychologically but also to the time when by proper encouragement the public can buy. Inasmuch as the original receivers' estimates of liquidation values in most of the cases above listed were made before the full effect of the depression was felt, the proportion of returns is much more satisfactory than at first appears. In any event it is evident that the practicability of this method of disposing of unprofitable distress property depends entirely upon local conditions, present recovery in real estate and prospective further recovery in the near future.

The authorities feel that there comes a time in the recovery of each community when it is practicable to strike a balance between possible further gains in values by delay or cashing in on what the property will bring at auction. When the prospects of the latter, after a proper build up, indicate at least an even break with the prospects of the former the auction system has great advantage. In the case of banks in receivership it results in the distribution of funds to depositors which, of course, go to the communities as a whole as well as to individuals. There is the added benefit to the real estate situation in the community of taking from the market properties which constantly threaten values, thus establishing a new level of values. The basis for the series of sales in the eastern states now undertaken is the belief on the part of the Comptroller's office and the bank officials concerned that the real estate market in the eastern states has reached a condition where it is probable that values can be realized which, with the other advantages noted, will be as satisfactory as they would be if properties were held longer under the expense of management and lengthened liquidation.

If such is the situation, the question naturally arises as to how practical may be similar methods for active banks now afflicted with large real estate buildings. The Comptroller's office is not ready to make a blanket pronouncement on the subject, but apparently there is nothing to prevent any bank from adopting this method if conditions seem promising and the volume of property involved is large enough to justify the intensive advertising and promotional campaign which has preceded the sales heretofore made by receivers.

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

SEPTEMBER
1937

Some Dates in September

1st	1937	As of this date F. R. B. margin regulations apply to loans made prior to May 1, 1936, by banks to their customers for the purchase of stocks, loans made after May 1, 1936, already having become subject to these regulations.
	1909	Dr. Frederick A. Cook wired that he had reached the North Pole on April 21, 1908.
	1885	First electric railway in U. S. was opened at Baltimore.
	1870	The French were defeated at Metz.
	1675	Deerfield, Mass., was burned by the Indians.
2nd	1666	London's "Great Fire" began.
3rd	1925	Dirigible *Shenandoah* was destroyed.
	1783	At Paris was signed the treaty of peace between the U. S. and Great Britain.
4th	1933	American Bankers Association Convention opened at Chicago.
	1870	France was proclaimed a republic.
5th	1905	Treaty of Portsmouth was signed, ending Russo-Japanese War.
6th	1914	Battle of the Marne began.
	1909	Peary announced his discovery of the North Pole.
7th	1937	Terms of Treasury's quarterly financing to be announced.
	1886	America's Cup race series began.
8th	1911	M. Hilles flew 776 miles in about 14 hours.
	1664	New Amsterdam was surrendered by the Dutch to the English.
9th	1935	The big gold movement to New York began.
	1912	American Bankers Association opened its 28th Annual Convention at Detroit.
10th	1934	Sen. Huey P. Long of Louisiana was assassinated at Baton Rouge.
	1846	Elias Howe patented the sewing machine.
	1813	Perry won the Battle of Lake Erie.
11th	1936	Boulder Dam was placed in operation.
	1850	Jenny Lind's first American concert was held in Castle Garden, New York.
	1609	Henry Hudson sailed up his river in the *Half Moon*.
12th	1932	French Government began conversion of its obligations, amounting to nearly 86 bil. frs.
13th	1907	S. S. *Lusitania* made her maiden voyage, Queenstown to New York, in 5 days, 54 minutes.
	1314	"Star Spangled Banner" was written.
	1759	Gen. Wolfe took Quebec.
14th	1901	Pres. McKinley died.
15th	1937	Third instalment of the 1936 income tax is due: $817,000,000 Treasury note maturity.
	1917	Russia was proclaimed a republic.
16th	1920	Wall St. explosion killed 30, injured 100.
	1859	First overland mail left St. Louis by pony express.
17th	1933	Death of Francis H. Sisson vice-president, Guaranty Trust Co. of New York, and former President, American Bankers Association.
	1787	The Constitution of the United States was ratified by the convention.
18th	1935	Marriner S. Eccles was named chairman of the Board of Governors of the Federal Reserve System.
	1934	Russia joined the League of Nations.
19th	1934	U. S. District Court held farm mortgage moratorium of the Frazier-Lemke Act unconstitutional.
	1777	First Battle of Saratoga.
20th	1935	Death of W. W. Atterbury, president of the Pennsylvania Railroad.
	1918	Meuse-Argonne offensive began.
	1873	Financial panic began, with closing of the N. Y. Stock Exchange for 10 days.
21st	1936	American Bankers Association Convention opened in San Francisco.
	1934	American Association of Railways was formed, consolidating American Railway Assoc. and Assoc. of Railway Executives.
22nd	1908	1,490,000-share day set record on N. Y. Stock Exchange.
23rd	1935	James M. Landis succeeded Joseph P. Kennedy as head of S.E.C.
24th	1869	"Black Friday" in New York.
25th	1517	Balboa discovered the Pacific Ocean.
	1934	Gen. Hugh Johnson quits as head of N.R.A.
26th	1936	U. S., Great Britain and France concluded currency agreement.
27th	1921	Lt. John A. MacReady, Army Air Service, set altitude record of 40,800 ft. at Dayton, Ohio.
	1918	Bulgaria sought armistice from British.
28th	1787	The new Constitution was sent to the states.
29th	1915	Wireless telephone conversation between Arlington, Va., and Honolulu.
	1789	Regular army established by Congress with maximum strength of 840 men.
30th	1918	Drawing of numbers for second draft began.
	1688	William of Orange accepted the British throne.

Pay as You Bond

THE record of corporate bond issues in the great depression is too well known to be detailed here. The sad story speaks for itself. There is good reason, however, to scrutinize carefully a method of financing whose failures were such a major feature of recent years.

Every depression seems to be the culmination of debt. Debts appear to be the last straws which break the camel's back, and when the crash comes there is always a vast wreckage of these obligations to be cleared away. It is only as this weight of debt is substantially liquidated that business revives. In almost any investment portfolio, when depression comes, may be found these unwieldy corporate debts whose other name is frozen credit. If we are to profit at all by the lessons of the depression it would seem desirable to review the basis of credit for such financing.

MAGICAL CREDIT

SHORT-TERM credit seems to be far less vulnerable, and in a well-managed institution it is used quite differently than in long-term corporate bond issues of fixed maturity. There appears to be a very general appreciation of the principle that short-term credit, at least, should represent future turnover, income, or profits, and be liquidated from them. Undoubtedly this explains the comparative success of selling on instalment. As for unsecured commercial loans, it is the usual thing to require a borrower to be fully paid up at least once a year. Within that space of time he is supposed to have turned over the stock for whose purchase he was granted credit, and the loan is thus liquidated from the operation for which it was incurred. A borrower is not supposed to use his returns otherwise until the loan is paid.

Credit used in this way is almost magical, for it enables us to reach out into the otherwise impenetrable future and grasp for today's use the fruits of tomorrow's labor. A salesman finds that if he could call upon more prospects in a day he could make more sales and commissions, and so he buys a car on "time" or "credit," paying for it on the instalment plan. The car is eventually paid for out of the profits of the future — profits which he would never have realized without it. By the magic use of credit he enjoys tomorrow's earnings today.

A seamstress buys a sewing machine in the same way. She greatly increases her capacity and output, pays for the machine with tomorrow's profits — which would never have come without it — and enjoys today the fruits of future labors — all through this magic device of credit. Credit in these short-term transactions is based upon the principle that it should be liquidated from the business to which it gives rise. Even when an automobile is purchased on the instalment plan for pleasure, the debt is liquidated from that part of future income which, during the life of the car, the owner can devote to pleasure or amusement.

To some extent this same principle is observed in long-term financing. Municipalities quite generally use serial bond issues to finance public improvements. Part of the loan is paid off each year, and the life of the longest series does not exceed the approximate life of the improvement.

Bond issues with sinking funds are similar in principle, where provision is made to lay aside a certain amount of yearly profits with which to meet the maturity of the issue, but while they may both be based upon the same idea, the serial issue would seem to be the more satisfactory. A sinking fund sets aside money which might better be turned back into active business. There is always a certain amount of expense involved in servicing it, and too often unwise management dissipates these funds. Serial bond issues, on the other hand, have all the merits of a pay-as-you-go policy.

In like manner, real estate mortgages at times provide for amortization, and the use of this practice seems to be growing in the financing of homes and farms; but too often mortgages on city real estate make no provision for reduction of principal, which doubtless explains in large part the slum areas of our great cities. The owner of a tenement property who has paid off his mortgage from the profits received during the fruitful years of the improvement is in far better position to replace a worn-out structure with a modern building than a slum owner whose property is still encumbered with the original mortgage loan. The latter cannot obtain financing for a new building unless the old mortgage is paid off, and this becomes more and more difficult for him if payment is postponed until the fruitful years are over. While some of the worst real estate financing has been done through serial bond issues, where these have defaulted they did so either because owners had over-borrowed against future income or because they failed to use that income to service and liquidate the debts. Serial bonds of any kind will be vulnerable if credit is abused in other ways.

THE MATURITY PROBLEM

RAILROAD equipment also is usually financed with serial equipment issues, and while some of these have defaulted it is more than likely that the railroad has become insolvent because of the heavy fixed charges and maturities of its non-liquidating issues. The earnings from equipment which should have been used to service and liquidate the equipment notes have probably gone for other requirements. Where these issues have proved failures it is hardly probable that this resulted from their strongest characteristic.

In contrast to long-term financing which has observed this principle of steady amortization, or liquidation, we find corporate long-term borrowing running into the hundreds of millions, or billions, of dollars, with entire issues falling due at one maturity date, with no provision for re-payment except as refunding may be able to accomplish it if the times happen to prove propitious when maturity comes around. In the recent depression one of our great railroad systems had two bond issues, totaling over $100,000,000, maturing in the same year. Neither was a serial issue and neither was provided with sinking funds. Re-financing, which could probably have been arranged in good times, was impossible, and the road was thrown into bankruptcy. Serial maturities in those two issues of this railroad might have been steadily reducing its debt load and its fixed charges toward the vanishing point. With only a fraction of the total to be

By JAMES R. TROWBRIDGE

paid off in that fatal year, instead of the entire amount, its credit might have been equal to the strain.

Of course, the chief objection offered is that serial maturities would have to be met out of income, and railroads and public utilities, at least, would never be permitted to increase their charges for that purpose. Why should the public be required to pay the corporations' debts? The Interstate Commerce Commission and the public service commissions would prevent it. If this is true, the whole idea of serial maturities goes by the board. To rely upon refunding, as is generally done with issues of one maturity, would be little or no improvement over present methods—it would probably be much worse. Nor would it do to depend on replacing these yearly maturities with stock or other forms of capital issues. They should be met, and would have to be met, from income, which means that rates would have to go up. This is not going to happen immediately. There would be plenty of resistance.

AN I.C.C. OPINION

IF, however, the idea is sound and in the interest of all parties—the debtor corporations and their customers, the security owners and the public generally—and if amortization of debt ought to be just as much a charge against earnings as wages, materials, taxes, etc., it ought not to be impossible to educate the public and their rate-making bodies to this effect. And here one might quote from the report of the Interstate Commerce Commission to Congress for 1933, pages 25–26. The Commission says:

> It has been the policy of railroad companies to provide for their financial requirements largely through the issue of long-term bonds which at maturity are refunded. While the bonds are refunded the indebtedness evidenced by them is ordinarily regarded as perpetual and no provision is made for its ultimate liquidation. The result is that the funded debt of the railway companies is constantly increasing as their investment in railway properties is increased. . . . The expense of refunding in the manner heretofore usually followed is considerable. More important is the danger that the maturity, if it occurs at a time when new or junior bonds are difficult or impossible to market, will cause trouble. Recent experience sufficiently illustrates this. The strain caused by heavy fixed charges in such a time as this is detrimental to service furnished the public. . . . We are giving consideration to methods of bringing about a reversal of the present trend in railway financing. . . .
>
> We believe that the desired results can be obtained, in part at least, through the provision of sinking funds to be set up by the railway companies out of net income for the purpose of retiring a part of their funded debt before maturity. If such funds are not voluntarily established by the railway companies, their establishment may be required as a condition to our authorization of further bond issues under the provisions of Section 20 (a) of the Interstate Commerce Act.

The sinking funds here advocated are of course similar in principle to serial maturities, and there would be no point in requiring such funds unless the road were permitted to earn enough to service them. The Interstate Commerce Commission fixes railroad rates. The same logic applies equally to public utilities. Before saying that higher rates are impossible it might be well to make some studies as to just what increases would be necessary in a few typical cases. For example, a recent large public utility refunding issue, with one fixed maturity, apparently could have been amortized in 50 years through serial issues, with a 2 per cent increase in rates, if all customers paid this same increase. A householder paying $5 per month would have paid about $5.10 per month at the start, with decreasing rates as the bond issue and its fixed charges gradually disappeared.

Somebody must settle these debts ultimately. Somebody must pay the piper. Bondholders may shoulder the burden if their advances are not repaid, whether they be the original creditors or those who extended credit through refinancing of prior issues, or it may be the community which will suffer a corresponding loss when and as the burden of old debts prevents credit for modernization and leads to obsolescence and bad service. And possibly rate payers may contribute enough through increased rates, but if the public does repay those debts through tariffs sufficient to service serial maturities it should reap a corresponding benefit, because as bond issues with their fixed charges disappear, the debtor company can be compelled to lower its rates accordingly.

A FAMILIAR PRINCIPLE

THIS would bring the benefits of public ownership while retaining the advantages of private management, which would be permitted to earn money only on the capital which it had invested. What it had borrowed would be retired, much as though the public had bought the plant outright, and that plant and equipment on which the corporation based its charges would be marked down accordingly as a basis for rates. Once the public was satisfied that such financing was desirable, even the new Federal tax on undistributed earnings might be sufficiently modified to allow for such procedure. The principle is not a new one. The public in the same way has paid and is paying for billions of dollars worth of cars and locomotives whose cost is met through serial equipment notes. Had bond issues of fixed maturity been used with no means of payment except through refunding, the load of fixed charges would be fantastic today.

Every cure that is offered for our railroads' financial troubles seems to call for higher rates, and the greater earnings could surely not be used to better advantage than to clear up indebtedness and reduce the burden of fixed charges—especially so as this should lead to lower rates again in the long run.

Often provision is made in a mortgage with a single maturity for increasing security by putting all future additions and improvements behind the bond issue instead of putting the money into sinking funds, but such additions and improvements do not extinguish the debt. At best they probably only make up for depreciation. The full death-grip of the mortgage is still there at maturity to foster obsolescence.

The crux of the matter would seem to be whether the self-liquidating principle is or is not sound, and with the many studies which are being made today of our financial structure and methods, this would seem to be a question worth serious consideration. If it is sound should we limit investment of trust funds and savings bank deposits to serial maturities—at least as to future issues? If not entirely so, should long-term investment of such funds, say, for 25 years or more, be confined to such serial maturities?

We are today supervised by many boards, bureaus and commissions. All of these are set up to serve the public interest. Through them it should be possible to promote a better type of financing, if something better can be found than the defaulted and depreciated issues we see today.

The Yield on Sound Personnel

By EDWARD N. HAY

NEXT to a portfolio of sound loans and investments, the efficiency and contentment of the employees is perhaps the most important single factor in good bank management. An incompetent or discontented organization may lose all the money a good loan department can make. Anything, therefore, that makes for better organization is important, whether it be more competent and loyal employees, fairness in promotions, justice in salaries, equitable and clean-cut distribution of duties, or whatever it may be.

Examples of a good and a poor condition affecting employee morale came to light in a recent study of methods of keeping records of attendance. In one large bank no systematic records are kept, and there is frequent comment by one group of employees that another group "take it easy" by coming in late, or by going to breakfast after reporting for work and going home early, "while we work to all hours!"

Another bank follows a rigid 38 hour week. It employs a floating force to take care of emergency overload in any department and in addition, if work in a department is slack, employees are transferred temporarily to another where the load is heavy. In this bank the management believes it is important to equalize conditions under which all employees work and that it has an important effect in maintaining high morale. If matters like this are given thought by the management, the result will be evident throughout the organization.

AN IMPORTANT DUTY

ONE of the most important jobs of the bank president, as leader of the organization, is to see that competent employees are selected, provide a correct distribution of duties and sound methods of operation, and assist his staff to work harmoniously toward the common aim.

By assigning to the personnel officer all matters affecting the employees it is possible for the president to institute a personnel policy which can be made uniformly effective throughout the bank. Thus employment can be delegated to one man, who, like any specialist, soon excels in finding the best type of new employee. Valuable time of other officers need no longer be devoted to interviewing every stray applicant who comes along. Sometimes three or four officials will interview by turns a job seeker whom the experienced employment man or woman would eliminate after three minutes of conversation.

With all matters affecting employees delegated to the personnel officer, it will be easy for the president to effect the observance of uniform personnel policies throughout the bank. It is a job that requires tact, and it is necessary that the personnel officer be a man of sufficient ability and judgment to command the respect and cooperation of the heads of all departments and units. However, it is important to realize that good personnel policies and practices can be put into effect only by the operating department executives themselves. Every supervisor therefore is a personnel officer. He must know the company personnel policies and carry them out effectively in his own unit. The personnel officer can not do that for him.

There are many ways in which the personnel man can work with the heads of departments and divisions. Nothing is more important than careful attention paid to promotion of the right man or woman and any carelessness or oversight in this regard is sure to injure employee spirit. A transit supervisor in one large bank never recommends a promotion until he has considered and talked with several candidates. He says that the effect even on the candidate who loses out is very beneficial when the situation is handled carefully. He recently talked with a young man whom he found was not ready for promotion and transfer to the audit department because he had not gone far enough in his study of accounting. The supervisor made the young man realize the need to complete his accounting course and left him with a satisfied feeling that he had been remembered and had been given careful consideration.

A BROAD FIELD

THE personnel officer can work with department heads also at many other points as his scope is wide. His work covers: employment; transfers, promotions and separations; education and training; medical safety and working conditions; salary administration; employee services (pensions, insurance loans, separation allowances, sick benefits); personnel records and routine; research and planning; employee relations.

The size of the bank will make a difference in how personnel functions are carried out. The largest banks have personnel departments composed of 25 to 35 persons, often headed by a vice-president. (Cf. BANKING, October 1936.) Even the smallest banks can benefit by establishing definite personnel policies and practices. For example, it may be wise not to employ more than one member of a family, or it may be felt necessary to establish a definite policy regarding the employment of married women, or for salary increases, hours of work, and many other matters, affecting the whole institution.

In smaller banks the president will be his own personnel officer, delegating the details of record keeping to his secretary or to a special assistant. Probably, however, a bank with even as few as 200 employees can benefit by assigning personnel functions to one full-time person, responsible directly to the president.

At this point it may be observed that the president is always the real personnel head of the organization and this situation is not modified by the fact that a special officer is designated to take charge of personnel matters. It should also be noted that the best practice is to give the personnel officer senior rank and to have him responsible only to the president. This enables him to deal as an equal with the heads of operating departments, which is necessary if the president is to have, through him, any real control over personnel matters throughout the organization.

How To Use Trust Receipts Now

By CHRISTIAN DJÖRUP

TWENTY years ago when bank acceptances were gradually coming into use for the financing of foreign and domestic shipments, many bank officers considered rediscounting their acceptances with the Federal Reserve bank a sign of weakness. It required many years of pioneer work before an open market for bank acceptances was created and their rediscount became common practice.

Lately trust receipt transactions, which form the largest part of the acceptance business, have been regulated by law and the scope of this financing has been broadened considerably by recognizing a security interest sufficient for a trust receipt transaction in lieu of the former ownership interest.

This law, called the Uniform Trust Receipts Act, has been adopted in New York, Oregon, Massachusetts and Tennessee as formulated by the Commissioners on Uniform State Laws, while in Indiana, Illinois, California and Connecticut chattel mortgage amendments have been included which allow the granting of secret liens by the trustee or borrower to a finance company, to the detriment of banks granting unsecured loans.

In all states where the Trust Receipts Act has been adopted, it is necessary only to exhibit bills of lading or other documents of title to a banker, who can grant a loan on the merchandise represented by these documents and release the merchandise and the documents against the signing of a trust receipt.

In short, a manufacturer or dealer in commodities in the East may ship merchandise to a customer in San Francisco or a smaller town in California, attaching a bill of lading, invoice and all other required documents to a sight draft.

The customer may pay such draft, if his bank account permits, and subsequently obtain a loan from his bank or any banker that is willing to make such loans by exhibiting the documents and signing a trust receipt, whereby he agrees to use the proceeds for the repayment of such loan. In this manner the customer replenishes his working capital.

AN OPPORTUNITY FOR SMALLER BANKS

WHILE, in the past, only large banks conducted an active acceptance business, the way has been opened for a smaller bank to grant loans to its customers on an acceptance and trust receipt basis by lending credit without using its funds, provided the acceptances are eligible for rediscount at the Federal Reserve bank.

Acceptances based upon domestic shipment and sale are eligible for rediscount at the Federal Reserve bank. The trust receipt law permits the obtaining of a security interest in merchandise when the owner exhibits documents of title to the bank, which releases such documents against a trust receipt and grants a loan or gives new value to the owner. The best way of granting such loan is by permitting the merchant to draw a 60- or 90-day draft on the bank, secured by the respective merchandise, which the bank accepts and purchases or discounts for account of the merchant, crediting him with the proceeds. The bank then holds "its own acceptance purchased" in its portfolio and can either sell it at a lower discount rate to its principal correspondent in a city where a Federal Reserve bank is located or sell it through a broker at an advantageous rate.

It should not be many years before financing of merchandise shipments to smaller cities or manufacturing centers will be placed on an acceptance basis with corresponding trust receipt by local banks. The bank will have to ascertain how it is going to be repaid out of the proceeds of the goods released and base the running time of the acceptance accordingly. Since the bank is able to get its money back by reselling or rediscounting its acceptance when it desires to, its money is not tied up, and on that account this kind of financing can be undertaken at a smaller cost to the borrower.

SAFEGUARDS AGAINST PRIOR LIENS

MOST of the ocean bills of lading for importation of merchandise are made out to the order of the bank which issued the import letter of credit and bear the endorsement of that bank. This should be a warning to a subsequent lender on the same documents that the endorser may hold a lien on the merchandise covered by these documents.

However, ocean bills of lading are frequently attached to sight or time drafts drawn on the importer and domestic or railroad bills of lading may also be made the subject matter of a trust receipt transaction by merely exhibiting them to the lender.

When I was working with banks in New Orleans more than 12 years ago, trust receipts were being used and the documents released were numbered, disclosing the clearing-house number of the bank releasing them. In that manner, any banker asked to finance documents could ascertain whether another banker held a lien on goods presented as collateral to a new loan.

For more than 50 years foreign bankers and acceptance houses have been placing a rubber stamp on every document, bill of lading, consular invoice, invoice, insurance certificate, inspection certificate, weighing slip, etc., that is the subject matter of an acceptance credit or a loan, disclosing the identity of the bank; and every paper accompaning the documents of title bears the same stamp and number.

It might be well if all our banks that grant a loan on bills of lading or any documents representing title of goods use a rubber stamp, giving the name of the bank and the number of the transaction in the upper left hand corner, front or back, of every document and paper pertaining thereto which is released under trust receipt.

Not so many years ago when the writer represented a creditors' committee and subsequently the receiver and the trustee in bankruptcy of a large commodity concern, there appeared triple and quadruple financing of the same invoices, and, out of about 12 million dollars of acceptances granted in one year, more than six million dollars were based upon fake delivery orders and, of course, unsecured.

Where to Dig Investment Facts

ONE might have supposed that for several years following the boom and collapse of 1929–1933 the average person would have lost interest in speculation and investment, and that many of those who had once made their living by advising others how to invest would today be scratching a precarious livelihood in other fields.

Actually, neither of these things has happened. Indeed, quite the contrary. The writer was reminded forcefully a few weeks ago of the far-flung current public interest in financial news and advice on a visit to the economics division of the New York Public Library. Noting that several nearby readers were engaged, not in the perusal of academic tomes, but in studying stock market charts and investment manuals, he decided to "count heads" among the others present. To his surprise, he found that out of a total of 63 persons using the facilities of the department at that moment 30, or between 45 and 50 per cent appeared to be seeking investment information of one kind or another.

"Is this a normal situation?," he asked the assistant in charge.

"Just about normal," replied the latter. "But at times interest is much keener than it is at present. Last Winter, when the bull market tide was running strong, there was a constant waiting list for the better known publications dealing with the financial markets and business, and nearly every morning we found readers outside the door when we arrived to open up the department. On Monday mornings, especially (when several of the more popular weekly reviews make their appearance) they could hardly wait until 9 o'clock to see what their favorite authorities had to say about the market outlook."

Such readers as the present writer observed were, it need scarcely be pointed out, neither bankers nor big investors or "plungers". In some instances, quite possibly, they were the secretaries of business men who used this method of gathering quickly the cream of the week's investment advice. For the most part, however, they were made up of "small fry" (as investors go)—persons of comparatively modest means who had found that by the intelligent use of the library they could get about as much information as was available to the clients of the standard financial services.

WHO ARE THE READERS?

THE Cleveland Public Library conducted a little private investigation at Cleveland recently and the survey showed that the readers of the investment publications and services were classified as follows:

	Per cent of total
Clerks, salesmen, accountants and other office workers	25.6
Professional workers, including teachers, doctors, and lawyers	21.1
Proprietors, managers, and officers of corporations	8.6
Housewives	5.8
Skilled mechanical workers and foremen	3.1
Students	2.2
Unskilled workers	0.1
Unspecified or unemployed	32.6
Unclassified	.9

In discussing with readers why they came to the public library, the librarian, Miss Rose Vormelker, reports: "We were told, first and foremost, that it was for information." And she adds as an example:

"One well known surgeon in Cleveland, who makes a regular weekly visit, confided that he did not know the difference between a stock and a bond before coming to the library. He had entrusted his investment account to a broker, and had acted solely on the latter's recommendations. As he became better established and found it possible to take more time off to come to the library, he was amazed at his lack of comprehension of the subject. He began with fundamentals—what a stock is, what a bond is, and how to study a corporation's financial statement—and worked up gradually to the use of investment services. Today he is able to follow intelligently the industrial and financial news, and appreciate its effects on securities."

LARGER DIGGERS

IF there is such a widespread demand for investment advice among those with comparatively little to invest, and who must of necessity seek their own sources of advice, then there is, it need hardly be added, an infinitely greater market among investors of larger means—and, in these days of public tax returns, it is not difficult to find out who and where such investors are. To meet this market there has grown up a multitude of services, ranging from the tipster sheet (which smacks more of the race track than the investment market) to those investment counsel firms occupying elaborate suites in big city skyscrapers whose services are at the disposal only of those fortune-favored clients who are prepared to place from $200,000 to $500,000 at their discretion.

In between these extremes there are numerous sources of financial and business information with which the average investor or investing institution should be familiar, even though he may have no intention of subscribing to all of them. They include books, newspapers, financial periodicals, and manuals on the one hand, and investment services on the other.

The line of demarcation here suggested is based on two circumstances. In the first place, up to the point where we reach the financial "services" we are dealing with sources that are mainly factual, rather than advisory; in the second place, the term "services" covers a very wide field.

First, as to background reading.

It would be impossible in this limited space to present a complete bibliography on finance, but, assuming that the reader understands in a general way the principles of money and banking and corporate finance, he can read with profit any of these books on finance and investment:

Jordan on Investments, by D. F. Jordan (Prentice-Hall, 1934); *The Financial Section of a Newspaper*, by C. Norman Stabler, financial editor of the New York *Herald Tribune* (Herald Tribune); *Analyzing Financial Statements*, by Stephen Gilmore (Ronald Press, 1934); *The Analysis of Financial Statements*, by H. G. Guthmann (Prentice-Hall,

By EDWARD H. COLLINS

1935); and *What the Figures Mean*, by Meredith Spencer (Appleton-Century, 1935).

Also: *Investment Principles and Practices*, by R. E. Badger and H. G. Guthmann (Prentice-Hall, 1936); *Organizing and Financing Business*, by J. H. Booneville and L. E. Dewey (Prentice-Hall, 1935); *Determinants of Investment Practice*, by Edmund Brown (Macmillan, 1934); *A Study of Corporation Securities, Their Nature and Uses in Finance*, by A. S. Dewing (Ronald, 1934); *Analyzing Our Industries*, by C. E. Fraser and G. F. Doriot (McGraw-Hill, 1932); *Investment and Speculation*, by Laurence Chamberlain and W. W. Hay (Holt, 1931); *Security Analysis*, by Benjamin Graham and D. L. Dodd; and *Analysis of Industrial Securities*, by J. H. Prime (Prentice-Hall, 1935).

The late J. E. Meeker wrote, in *The Work of the Stock Exchange* (revised last in 1930), what has long been regarded as the accepted handbook on stock market technique and theory. Many of the tenets accepted in this book, however, have been brought into question by two more recent studies, *The Security Markets*, published in 1935 by the Twentieth Century Fund, and John Flynn's *Security Speculation: Its Economic Effects* (Harcourt, 1934). From the beginner's standpoint the former is the more valuable; if one is looking for something more argumentative he will find Mr. Flynn's volume stimulating. A more friendly attitude toward the stock exchange, so far as the newer books are concerned, is *The Stock Market*, by S. S. Huebner (Appleton, 1934).

Three books which approach the problem of investment from somewhat special angles are D. C. Rose's work, *The Practical Application of Investment Management* (Harper, 1935); N. G. Riddle's *Investment Problems of Trust Institutions* (Chicago Business Publications, 1934); and the late R. W. Shabacker's *Stock Market Profits* (B. C. Forbes, 1934).

For current financial information, there are numerous first class newspapers and magazines. Mr. Stabler's book, *The Financial Section of a Newspaper*, is useful as an introduction to the pages of the New York *Herald Tribune*. This book, in its sixth printing and dating back to 1930, now has a counterpart on the New York *Times* called *The Financial News*, introduced to the public a few months ago.

In the periodical list some of the stand-bys are *Barron's*, the *Annalist*, the *Financial World*, *Forbes*, the *Magazine of Wall Street*, and the *Commercial and Financial Chronicle*. The last named is the nestor of financial publications, tracing its beginnings to 1865, so that, combined with *Hunt's Merchants' Magazine*, it provides us with, if not a financial history, at least much of the raw material for such a chronicle back to 1839. Along with its several supplements—the *Monthly Earnings Record*, the *State and Municipal Compendium*, the *Railway and Industrial Compendium*, the *Bank and Quotations* section, and the *Public Utility Compendium*, the *Chronicle*, as it usually is referred to, constitutes a veritable encyclopedia of factual and statistical information. While the files of the *Chronicle* are still much in demand, and while it is looked upon as the standard source for certain material, notably new capital flotations, it now must share with other publications one of the greatest single sources of its usefulness of years past. Once, one went painstakingly back through the files of the *Chronicle* to trace the sequence of events with respect to a given company; now one turns to one of a number of different financial manuals and services for that purpose.

The *Annalist* and *Barron's* (an affiliate of the *Wall Street Journal*) are mainly factual, with emphasis on general articles of the financial background type. However, the *Annalist*, while shunning individual stocks, is not averse to printing articles of at least a semi-forecasting type, while *Barron's* makes no bones of discussing individual stocks and technical market conditions. The latter's column, "The Trader" is a well known investment feature. The *Annalist* regularly carries a sizable amount of market statistics covering commodities as well as securities, in addition to an informed business "lead" by its editor, D. W. Ellsworth.

The *Financial World*, *Magazine of Wall Street*, and *Forbes* fall into the same general category in that they are more interested in giving the reader information on specific companies and specific stocks than are any of the three publications mentioned above. The *Magazine of Wall Street* makes a greater appeal than its two associates, perhaps, to the person interested in articles of general interest. *Forbes* emphasizes its publisher's interest in business "personalities". Louis Guenther's *Financial World* likes to give its readers features such as "Stock Factographs" (thumb-nail sketches of stocks) and "Eight Common Stocks in an Advantageous Position".

No review of the factual sources at the disposal of the investor would be complete without mention of the various so-called "manuals". These are, as Frederick W. Jones has put it in *The Security Markets*, "unabridged encyclopedias of information about corporations and political units." The best known factual securities services, each of which has its series of manuals, are Moody's, Poor's, Standard Statistics, and Fitch's.

THE INVESTMENT MANUALS

MOODY'S manuals, which are typical of the others, though they may differ in certain details, consist of five annual volumes, each covering a different field of investment, and listing corporations in whose securities there is a public interest. Each manual has its own supplementary service, which is published twice a week, keeping subscribers in touch with any new statistics or developments affecting the companies and securities appearing in the manuals. The five Moody manuals, or "base books", are: *Moody's Industrials*, containing detailed analyses of 5,000 companies; *Moody's Banks and Finance*, carrying information on 8,000 banks, investment companies, investment trusts, mortgage and finance companies, and real estate enterprises; *Moody's Railroads*, analyzing 1,700 different companies; *Moody's Governments and Municipals*, containing descriptions of over 40,000 bonds representing the obligations of practically every government, national and local, in the world, where there is an investment interest; and *Moody's Public Utilities*, covering a final 3,000 corporations in the utility industry.

Mr. Collins' study of sources of investment information will continue next month with a discussion of advisory services.

When Is a Loss?

THE title to this article is not an error. For "when is a loss a loss" has been a most troublesome question to bank officers for many years.

A bank might recognize that an asset carried on its books at a certain figure no longer was worth that amount of money. It might even go so far as to make a charge against its undivided profits account equal either to the entire carrying value of the asset or to a portion of that carrying value. But when the bank made its Federal income tax return, the officer preparing the return came squarely up against a provision in the income tax law which said that the loss thus made manifest upon the bank's books was not a loss for income tax purposes unless the bank could prove the loss. If the asset was a bond, the Internal Revenue Bureau said this loss could be proved only by the sale of the bond at the lower figure to which it had been charged down. In the case of a note, the Revenue Bureau said the loss could be proved only where every effort had been made, by suit, by judgment, by levy, etc., to collect—and those efforts had failed.

On the other hand, another group of men employed by another branch of the United States Treasury—the national bank examiners—did not require such exhaustive tests to determine whether an asset was an entire or a partial loss. These gentlemen had no such inhibitions. They took a look at the asset, together with the supporting data in the bank's credit files, and then in their report said it either was an entire or partial loss and ordered it charged off or charged down. The state bank examiners did likewise in the case of state banks.

Thus the banker was caught between the devil and the deep blue sea. Obeying the bank examiners' orders, he must charge what they determined to be losses against his undivided profits account. Then, in making up his Federal income tax return, he either had to furnish a lot of additional information to justify his claiming these losses, or he had to ignore them and pay income taxes upon income which he did not have, from the examiner's standpoint.

While this problem had been bad for a number of years, it became acute about the year 1931, when bank examiners began to get hard-boiled in their charge-off requirements. Complaints soon began pouring into the office of the Comptroller of the Currency, and that office took up with the Bureau of Internal Revenue the inconsistency above outlined. Several years of correspondence and conference between the two divisions of the Treasury took place, and finally, in April 1936, the income tax regulations were amended by the promulgation of what is technically known as Treasury Decision 4633.

This change in the regulations provided, in brief, that when a national or state bank examiner ordered an asset of a bank charged off or charged down, such asset "shall be *conclusively presumed* for income tax purposes to be worthless, or recoverable only in part, as the case may be." (Italics supplied.)

If the change in the regulations had stopped here and had been effective only from the date of its promulgation, probably little controversy would have arisen, but the regulation continued with this language: "But in order that any amount of the charge-off may be allowed as a deduction for any taxable year, it must be shown that the charge-off took place within such taxable year." In addition, the change in the regulation was made retroactive and affected all cases arising under the Revenue Acts of 1932 and 1934 as well.

If, therefore, bankers were confused by the previous situation, they were confounded by the situation which existed after the change in the regulations. Let's take a specific example.

A bank bought a bond in 1929 and paid $1,000 for it. In 1932 the bank examiner ordered this bond charged down to $800 and the bank made the partial charge-off as ordered during that year. Because it had not sold the bond and therefore had not, under the income tax regulations then existent, "determined its loss," the bank did not claim this $200 charge-off as a deduction in computing its income tax liability for 1932.

In 1935 the bank sold the bond for $900 and, in preparing its income tax return for 1935, having established an actual loss of $100 on the bond, claimed this $100 as a deduction from its taxable income for that year.

In April 1936 the change in the regulations, retroactive to 1932, was promulgated, and in August 1936 a revenue agent examined the bank's return for 1935. His report said that the bank should not be allowed to take the $100 loss, but that it should increase its taxable income by the $100 profit between the $800 to which the bond had been charged down in 1932 and the $900 at which it was sold in 1935. The banker pointed out that he had not claimed the $200 deduction in 1932, and the revenue agent admitted that had he done so, the claim would have been disallowed, under the regulations as they then existed. But when the banker tried to file a claim for a refund for 1932, under the new regulations, he was told that procedure was impossible because the Statute of Limitations had run against 1932 returns.

Thus it seemed that a bank which had suffered an actual loss of $100 in this transaction not only could not deduct this loss for income tax purposes, but would have to pay taxes on $100 profit which it never received, and despite the apparent unfairness of such a procedure, technically speaking, the revenue agent seemed correct in his report.

In December 1936 the Taxation Committee of The American Bankers Association sought a conference with the General Counsel of the Bureau of Internal Revenue and urged that some action be taken either through a revision of the regulations, or by administrative practice, which would solve the problem.

On June 28, 1937, General Counsel's Memorandum 18,525 was issued, having the effect, it is believed, of covering every possible contingency that may arise and taking care of the many problems which already have been faced by banks throughout the country.

G. C. M. 18,525, after reciting the last paragraph of Article 23(k)–1 of Regulations 94 and the amendments to Regulations 77 and 86 covering the Revenue Acts of 1936, 1932 and 1934 respectively, points out that these regulations

By CHARLES H. MYLANDER

are interpretive of Section 23(j) of the Revenue Act of 1932, 23(k) of the Revenue Act of 1934, and 23(k) of the Revenue Act of 1936, which provide for the allowance of

> "*Bad Debts*—Debts ascertained to be worthless and charged off within the taxable year . . . ; and when satisfied that a debt is recoverable only in part, the Commissioner may allow such debt, in an amount not in excess of the part charged off within the taxable year, as a deduction."

The General Counsel's Memorandum points out that the language of the statute relating to *partially* worthless debts does not *require* the taxpayer to claim such partial worthlessness as a deduction in any particular year. It does provide that the Commissioner *may* allow, as a deduction, any partial *worthlessness which is charged off within the taxable year*.

In other words, if the bank examiner orders an asset to be charged off *in part*, and the bank makes the charge-off, it is not mandatory upon the bank that it claim the amount of this charge-off in its income tax return for that particular year.

The General Counsel's Memorandum continues that Treasury Decision 4633, and the related regulations under the Revenue Acts of 1932, 1934 and 1936, establish certain principles applicable to bank income taxation for the years which are governed by these particular Revenue Acts. Among these principles are the following:

> (a) The order of the bank examiner relating to the charge-off is a material factor only if such charge-off is claimed by the Bank in its income tax return. The bank examiner's order is "conclusive," as far as the Internal Revenue Bureau is concerned, that the portion of the debt charged off, in accordance with his order, is worthless.
>
> (b) If the order of the bank examiner is that the debt be charged off in its entirety, then the bank must both charge the item off in full and must claim the entire amount thus charged off as a deduction for the taxable year in which the charge-off is ordered. In other words, a deduction for *total worthlessness*, established through an ordered charge-off by a bank examiner, may be taken as an income tax deduction only for the taxable year in which the charge-off was ordered by the examiner and made by the bank.
>
> (c) Where, however, a debt is ordered charged off *in part* by the bank examiner and the bank makes the charge-off, then the amount thus charged off will be allowed as a deduction for that taxable year, if claimed by the bank.
>
> (d) Where a *partial* charge-off has been ordered by the bank examiner, but for some reason or other the bank fails to make the charge-off within the same taxable year, then the bank may not claim the amount ordered charged off as a deduction for that taxable year for income tax purposes.
>
> (e) Where a debt has been ordered charged off in part by the bank examiner, but the bank does not charge it off nor claim a deduction for the taxable year in which the charge-off was ordered, and during a subsequent taxable year the bank examiner orders an additional amount charged off on the same debt (even though such additional amount be less than the entire balance of the debt as then shown by the books of the bank), the bank may then combine the two amounts thus ordered charged off and claim the total as a deduction for the taxable year in which the last charge-off was ordered and made by the bank.
>
> (f) When a bank examiner has ordered a *partial* charge-off on a debt, but the bank has not made the charge-off nor claimed the deduction in that income tax year, and later the examiner orders the entire balance charged off, then the bank must claim, for the taxable year in which the complete charge-off was ordered, the entire amount of the debt as a deduction for that particular taxable year.
>
> (g) If a bank examiner has ordered a partial or an entire charge-off of a debt, and the bank has not claimed any portion of the amount charged off as a deduction, amounts subsequently collected on ac-account of such debts are tax-free recoveries and need not be included in gross income for the taxable year in which such collections are received.
>
> (h) If the bank examiner has ordered a partial charge-off in a particular taxable year, but such partial charge-off has not been claimed as a deduction for that taxable year, and subsequently the debt is sold, then the basis of cost to the bank, for the determination of gain or loss from the sale, is the original book value thereof, and not the amount to which it was ordered charged down by the bank examiner.
>
> (i) If a debt was ordered charged off in its entirety by the bank examiner, but no deduction was claimed during the taxable year in which such charge-off was ordered, and subsequently the debt is sold, the bank then is barred from claiming as a loss for the taxable year in which the sale was effected the difference between the original basis or book value of such debt and the sale price. The Bureau believes "that to allow a loss based upon a sale under such circumstances, in a year subsequent to the year of ascertainment of the total worthlessness, would permit, by indirection, the evasion of the statutory provisions requiring deductions based upon claims of total worthlessness of a debt to be taken only in the year of ascertainment of such total worthlessness and charge-off." If, however, the bank subsequently should sell the debt for more than its original cost or book value, then the bank need return as gain only the excess of the proceeds of the sale over the original cost or book value.

The principles laid down in paragraphs (h) and (i) seem to refer, in general terms, to charge-offs and sales of bonds held for investment purposes by banks, and it is believed that the principles here laid down will clear up most of the controversy which has arisen. It is believed that there are very few cases where bonds were ordered charged off in their entirety by the bank examiner.

Then the General Counsel's Memorandum goes on, under paragraph (j), to clear up some of the inconsistencies which were pointed out earlier in this article. Paragraph (j) says:

> "(j) Where, in cases governed by the Revenue Acts of 1932 and 1934, a bad debt deduction based upon alleged total worthlessness was disallowed to a bank prior to the promulgation of Treasury Decision 4633 under circumstances which would have entitled the bank to such a deduction under the provisions of Treasury Decision 4633, and the statute has now barred a refund for the earlier taxable period, it is the opinion of this office that upon subsequent sale of such debt by the bank, no adjustment should be made in the original basis of the debt for the purpose of determining gain or loss from the sale."

It will be seen, by an examination of this paragraph, that where a bad debt deduction was claimed by reason of the order of a bank examiner, but was disallowed prior to the promulgation of T. D. 4633 because of the language of the then existing regulations, that profit or loss from subsequent sales of such debts will be governed by the original basis of the debt, and not by the amount to which it was ordered charged down by the bank examiner.

The action of the General Counsel in clearing up, by this ruling, the many controversies which have been caused by revenue agents, acting under the provision of T. D. 4633, is one for which all banks should be most grateful.

Under the principles laid down in the ruling, no bank should have any difficulty in making its tax returns and obtaining for itself all of the benefits that might accrue to it by reason of the orders of the bank examiner; nor will it longer be necessary for banks to keep two sets of books—one for the benefit of the bank examiner and one for the benefit of the income tax examiner.

The courtesy and the consideration given to the Committee on Taxation of The American Bankers Association, by the General Counsel and others in his office, is much appreciated.

Why Bank Costs Vary

By E. S. WOOLLEY

MUCH has been written on the subject of item costs in banks and on the factors which enter into such costs. However, it must be remembered that item costs largely depend upon the number of items flowing through the individual bank and therefore they will vary from month to month even though the expenses are exactly the same in dollars and cents.

Low item costs do not necessarily mean a profitable bank nor do high item costs mean an unprofitable bank.

The same thing is true regarding maintenance costs. Actually the maintenance costs should only be those costs which apply alike to active or inactive accounts. If there were no activity in any of the accounts, not many people would be required for the general operations of the bank. Banks require personnel and lobbies because of activity.

Any over-statement of maintenance costs naturally has the effect of reducing the activity costs. Perhaps this can be better illustrated by the use of a special case. A commercial department of $1,500,000 in deposits had 3,857 accounts. The total annual operating expenses of the department were $44,000. If 60 cents per month per account were deducted from the commercial department's expenses for maintenance, the bank would be taking $27,770 or over 63 per cent of the total operating expenses for maintenance. This would naturally bring the item costs very low as it would only leave $16,300 against which to charge the activity. On the face of it, this would be wrong.

Certainly no bank could believe that 60 per cent, or anything like that amount, of its commercial department's costs could be applied to the inactive accounts.

In the table accompanying this article are some typical item and maintenance costs of a dozen banks ranging in size from $300,000 to over $8,000,000 in commercial deposits. An examination of this schedule shows that there is considerable variation in such costs between banks and that the size of the bank alone is not a deciding factor.

It is often popularly supposed that the item costs in a small bank are less than in a larger one. Examination of numerous banks proves that this is not the case; in fact, just the opposite is frequently true. It is true, however, that the maintenance costs are usually higher in a large bank than in a small bank. This is because fixed charges such as rent, taxes, etc., are usually higher in the larger institution. Like item costs, maintenance costs are dependent somewhat on volume, in this case volume being the number of accounts.

Maintenance costs, even more so than activity costs, are a form of costs which do not fluctuate correspondingly as the number of accounts increase or decrease. True, there is a saturation point by which present facilities would have to be increased and which would cause a rise in maintenance costs, but even such an increase would not be a corresponding increase. When that point was reached, it would probably increase maintenance costs, per account, tremendously until such time as capacity was again approached.

These are some of the facts which must be remembered when considering the new "no-minimum-balance checking accounts." This problem of no-minimum-balance checking accounts does not appear to have been solved by any means. The Bank Management Commission of the American Bankers Association recently did an outstanding service for American banking in studying this type of checking account and publishing its findings.

There are two outstanding facts to consider. The first and foremost of these is that there is a public demand for such services. Banks which have established this service have proved this. Furthermore, a recent survey of post office orders issued would seem to indicate that there are issued each month a number equal to approximately 10 per cent of the population of a community. In other words, a city of 100,000 would probably issue 10,000 post office orders per month.

Here are potential customers of no-minimum-balance checking accounts. It would seem, therefore, that with the demand established the problem facing banking institutions is how best to supply that demand and make a profit.

Item Costs of a Dozen Banks

Demand Deposits (000 omitted)	*Book-keeping Credits*	*Book-keeping Debits*	*Transit Items*	*C. H. Items*	*Maintenance per Month*	*List Checks*	*Reserve Rate*
$ 572	$.0620	$.0523	$.0191	$.....	$.1413	$.....	19.27%
310	.0609	.0414	.0287	.0115	.1384	.....	21.29
1,078	.0332	.0236	.0087	.0025	.1807	.0162	30.27
656	.0627	.0445	.0183	.0073	.1007	.....	23.61
607	.0494	.0312	.0161	.0045	.0972	.....	22.63
561	.0682	.0465	.0245	.0059	.1208	.....	18.26
1,272	.0588	.0471	.0266	.0084	.2083	.0354	22.03
2,718	.0393	.0315	.0177	.0056	.1691	.0256	20.72
2,762	.0592	.0474	.0267	.0093	.2143	.0367	25.60
3,683	.0586	.0469	.0261	.0083	.1872	.0234	14.61
1,930	.0972	.0810	.0583	.0162	.2684	.0654	18.32
8,794	.0401	.0319	.0126	.0087	.2439	.0361	23.87

England's Even Keel

By F. BRADSHAW MAKIN

THE long term rate of interest when reviewed historically is not unduly low, but short term rates are at a very low level. A hardening of short term rates would be welcomed in certain circles, and any such hardening need not have any effect on the long rate.

The London money market differs from any other financial center, chiefly as a result of the branch banking system in Britain and the existence of London discount houses.

England possesses few banks, but each bank has many branches, two banks alone having over 2,000 branches each.

The development of branch banking resulted in a network of branches throughout the country and the localization in London of the respective head offices. Each branch has an account with its head office, and any surplus funds in the hands of a branch are transferred to head office for use in the money market. It is, therefore, fairly apparent that a large percentage of the funds available on the money market are occasioned by the excess of deposits over the demand for banking accommodation on the part of the business community throughout the whole country. The remaining funds are, in the main, the surplus funds of foreign depositors or foreign banks having offices in London.

The total funds available are either lent on the market on "call terms," invested in the discounting of bills, placed on investment in gilt-edged securities, or put on deposit at the Bank of England. Cash with the Bank of England is the first line of defense of the joint stock banks, and second in importance is the "money at call or short notice." Call money lent to the market is taken up by the bill brokers and the stock exchange. Bill brokers usually borrow at "call" or on seven-day rates, whereas the stock exchange borrowings are usually on a 14-days basis. Naturally the "call" or period borrowings are not in practice repaid and reborrowed, but often run on for lengthy periods, always subject to the right to demand repayment according to the agreed terms. A banker will generally arrange his bill loans to ensure liquidity, that is, loans will be falling due for repayment daily.

The calling in of brokers' loans frequently compels the brokers to have recourse to the Bank of England for the purpose of raising funds. The brokers may only obtain funds from the Bank by selling bills direct to the Bank or lodging them as security for a seven-day loan. The Bank will only purchase or accept as security certain types of bills, spoken of as "approved bills;" and therefore the broker will watch his position very closely, and so keep his commitments within the bounds of safety and prudence.

The broker, in addition to acting as a highly specialized middleman, also acts as a very useful "shock absorber." Just in the same way as a controlling hand is kept over the brokers, so is a control maintained over the stock exchange, and any large scale speculation similar to that of Wall Street during 1929 would not be allowed to develop. The volume of funds available at call and short notice being shared between the brokers and the stock exchange, any undue demand for credit made by stock market operators can only be met at the expense of the bill brokers. Excess speculation will obviously force up money market rates, and if carried to extremes would force bill brokers into the hands of the Bank. In actual practice a rise in short term rates due to abnormal stock speculation is quickly observed by the banks and an effective control is operative.

The position of the Bank of England in relation to the money market is of particular interest, for the Bank, though closely connected to and possessing power of control over the market, is not strictly speaking a member of the market. The Bank is the pivot around which the British financial organization revolves, and though it is neither a government nor official institution it enjoys a power and prestige of far-reaching importance. The Bank of England, being a private organization, must as such earn profits for its stockholders, but as a central bank it accepts responsibility for the control of the credit situation of the country, the control of the note issue, the custody of the gold reserves, in addition to acting as the banker for all British banks and for the government. Control over the market was exercised in pre-exchange equalization account days by the use of the Bank rate or by open market policy. The raising of the Bank rate always has the effect of raising all money market rates, and makes money dearer throughout the country, the reverse obtaining when the Bank rate is lowered.

OTHER CONTROLS

THE open market policy of the Bank is also an effective method of controlling the money market, and this policy is the simple practice of the sale or purchase of securities or bills by the Bank itself. When a joint stock bank buys or sells securities, credit is merely transferred from one person to another without affecting the total volume, but when a central bank does so a quite different position is created.

A further control of the general credit situation can be operated in conjunction with the exchange equalization account. In BANKING's July article on "Post-Gold England" the reduction of the credit base resulting from a gold influx was explained, but the necessary compensatory action was not commented upon. The compensatory action taken was that of a purchase of gold by the Bank from the exchange account. Any purchase of gold by the Bank in this manner broadens the credit base and creates easier money conditions.

At the present time it appears that control of the market is to be exercised by means of open market policy and gold sales or purchases in conjunction with the exchange account, and that alteration of the Bank rate as an instrument of credit control is not to be considered.

On the question of the Bank of England's attitude towards the level of interest rates in the future it is difficult to make any definite statement. An examination of all relevant factors does not point to any necessity for an increase in long term rates, but the uncertainty in the international situation deters one from making even a tentative statement.

A Good Word for Instalment Buying

By THOMAS C. BOUSHALL

THERE is so much loose talk about the rising problem of instalment buying that it is well to set down some concrete facts about this phase of the American economy. There is much reference to the unsoundness, the profligacy, the preempting of later purchasing power, the slavery of the purchaser who owes more each month than he earns. Too infrequently those who give off these opinions back them up with ascertained figures or even suggest that there is a constructive side to instalment buying.

It would indeed be a fine constructive thing if all of us had the earning capacity and will power to set aside in a savings account money to buy the things we feel we want so keenly that we are convinced that they are the things we need. If the American scene represented that program alone it would present a wholly different picture among the masses.

The automobile one finds in every part of our country owned by every class of individual is there in most instances because instalment buying made it possible. Monthly purchase payments broadened the market for new cars and created a market for these cars when used. The result was mass production and lowered price. The lowered price broadened the market again, and again increased volume reduced the price. The small car in the low priced field today is a better, handsomer, more economical, enduring car at $700 than the $5,400 car of 1914 or the $3,000 car of 1924 or the $2,000 car of 1934. Instalment buying made it possible.

Those who would eliminate instalment buying would not want to pay $5,400 for their current automobiles. They would not want to see our employment and national income at 1914 levels. They would not want to travel over 1920 roads. The automobile has changed American society and brought city and country together. It has created wealth. It has distributed wealth. It has raised the standard of living. It has made that standard prevail to a far more universal degree than Utopian dreamers could even picture a half century ago.

TODAY'S PURCHASES

INSTALMENT buying is the catalyst that made these conditions precipitate themselves. Who would eliminate it and all that it has brought? Let us be sure that we cannot eliminate instalment buying and retain all the things it has made possible. Such wishful contemplation is inconsistent with factual thinking.

A potent argument against instalment buying is that today's pressured purchases freeze tomorrow's market when one's purchase on the instalment plan takes him out of the market until the price is liquidated in 12 or 24 months or more. Just when would the proponents of this objection have the purchaser buy? If he buys today and cannot buy tomorrow, at least today's sale has been made. Without instalment buying the sale would be made neither today nor tomorrow. And why is tomorrow's sale more important than today's? Today's sale makes possible a distribution of employment, of wages, of other purchasing that assures a market tomorrow for other things. If we eliminate today's sale and postpone it until tomorrow, out of what would tomorrow's increased volume arise?

There is no suggestion here intended that instalment buying is a panacea for all our economic ills. So long as we have human beings running our industries, our finances and our politics, there will be no panacea for all our economic ills.

It is the purpose here to urge a study of instalment selling, buying and financing to the end that its factual effect upon our economy may be better understood, appreciated, facilitated and controlled for constructive ends and neither diverted to unhealthy purposes nor damned to the detriment of society.

INSTALMENT SALES VOLUME

INSTALMENT buying, according to the United States Department of Commerce, in 1936 amounted to some $4,500,000,000, compared to $3,600,000,000 in 1935. These figures are an estimate arising from a report of the Census Bureau for 88 cities. This report estimates instalment sales in 1936 at 10.9 per cent of retail trade as opposed to 13 per cent in 1929. Retail trade in 1929 was $49,100,000,000; 13 per cent is $6,370,000,000. 1935 retail trade is put at $32,600,000,000. The department stores are estimated by the National Retail Dry Goods Association to develop $650,000,000 of instalment sales in 1937, not including charge accounts. It is probable that if the department stores create $650,000,000 of instalment sales, the total, including automobiles, refrigerators, radios, heating, home repair, furniture, equipment, and a variety of other items, will be much more than $4,500,000,000 this year.

The banking fraternity can face this fact very surely: a palpable part of banks' former loans to manufacturers, dealers, distributors and retailers has been absorbed by direct credits to individual purchasers. These purveyors no longer need to "carry" the merchant who is "carrying" the purchaser. He is being "carried" directly. Credit is being extended where it is being used. Many banks are facing this fact and are extending credit at retail.

Again, banking is being made available to the individual in the form of direct loans. The individual is buying for cash obtained on credit. He is liquidating his cash purchases over a period of several instalments for the amortization of his loan.

Banking will do well to gather the facts in terms of dollars related to instalment selling, purchasing and financing and all of its implications and ramifications related to our whole society and economy. It will find the true story, as opposed to profound opinions, a most enlightening one. It may change the operation of many banks fundamentally.

Instalment buying, in spite of its occasional abuses, is here to stay as a constructive force in the rapid evolution of a society where the larger percentage of the people fall in the privileged classes. If it can be properly controlled it offers an opportunity for banking to render a constructive service on a sound basis.

A Fine Crop of Wheat Problems

By C. M. SHORT

WHEAT growing is the world's major agricultural pursuit. About 400 million acres of land are now devoted to wheat of various types (the bread, pastry and alimentary paste varieties), with Russia, the United States, China, India, Canada, Argentina, Australia and the Danubian countries, in approximate order, having the largest planted areas. In fact, so large is the world's wheat-growing surface that somewhere within its borders harvesting takes place in eight months of each year. In each of the leading producing countries wheat is of great importance in the national economy, while it plays a part also in international affairs.

Various methods of wheat growing in or following periods of expansion have, particularly in the past decade, caused international economic problems which have reacted with special force upon producers in the New World. It is most important to understand the distinguishing features of wheat production in the New World and the Old. With the sweep of settlement that followed the opening of the American plains, there commenced a system of commercial grain growing which differed greatly from the practice in Europe and Asia, and which, accentuated by a steady enlargement of individual farms and by an increased use of mechanical equipment, came finally to be described as "factory farming." On the other hand, the Old World retained much of its traditional form of wheat agriculture.

PERIOD OF EXPANSION

BETWEEN the 1885–1894 period and the decade preceding the Great War the world wheat area (excluding China and south-west Asia, for which no reliable statistics are available) increased by 58 million acres, of which Russia accounted for about 28 millions and the United States, Canada, Argentina and Australia as a group for 22 millions. In the process of disposing of their surpluses these five producers encroached upon domestic markets in various European countries, whose growers demanded and obtained protection in the form of tariffs against the cheaper wheat grown under the "factory farming" methods of their competitors.

The Great War and early post-war conditions gave a great impetus to wheat production in North America, Argentina and Australia. In the ten years following 1914 the acreage in these areas rose by nearly 30 million, or 38 per cent, while that in Europe declined by 12 per cent, and there was a further impairment of European production facilities consequent upon the tremendous drain of man power from the farms for military and other services incidental to the conflict of 1914–18. Russia disappeared as an exporter, and tariffs were reduced by wheat deficit countries until world wheat trade increased in volume by one-fifth.

By 1925, however, European agriculture was practically rehabilitated and its wheat production (excluding that of Russia) then exceeded that of the five-year average immediately preceding the war, a fact which was comfortably ignored by the exporting countries. At the same time European agriculture again became conscious of foreign competition in its own market and felt also the burden of high industrial costs induced by war expenditures, inflation of one kind and another and industrial protectionism. Agricultural interests, therefore, once more pressed strongly for protection. Other factors also made themselves felt about this time, namely, the release of Germany from the tariff limitations imposed upon her by the Treaty of Versailles, which led immediately to the re-enactment of duties on imported foods, and the battle of wheat undertaken by Italy with the object of lessening her dependence upon foreign food stuffs. In 1929 Germany made no less than six changes in her wheat tariffs, effecting a net rise of 250 per cent to make the duty rate alone one of 150 per cent above the Liverpool price of Canadian wheat. In 1931 Italy raised her tariff by 250 per cent. France raised her duty by 60 per cent, following an upward revision of more than 40 per cent in 1929.

PROTECTING HOME MARKETS

AS the world economic depression deepened, these oppressive tariffs were supplemented by almost every conceivable measure to strengthen the protection of home markets, not only in Europe but throughout the world. Milling regulations were instituted for the express purpose of forcing the use of domestic rye, potatoes and corn, as well as of wheat, and thereby displacing most, if not all, of the foreign wheat which had been imported over the high tariffs in order to maintain the quality of bread. Prices of various wheats were fixed at levels considerably above world prices as stimulants to domestic production. Then several governments adopted the quota system and so limited wheat imports to prescribed quantities, invariably small. Moreover, wheat imports were deliberately curtailed as purchases of war materials increased, and were financed out of slender exchange reserves.

The depressing effects of these crippling restrictions may be judged by the fact that the volume of world wheat trade declined from an annual average of 721 million bushels in the 1924–34 decade to an average of about 500 million bushels in the two following years. A further decline would have been recorded had not the United States been forced by short domestic crops to reverse her status of an exporter and, by importing approximately 35 million bushels per year, become a net importer for the first time in nearly one hundred years.

The past twelvemonth has witnessed an upturn in world wheat trade to about 600 million bushels, a rise in prices at such an exceptionally rapid pace as practically to offset the precipitous fall in the acute depression years, and a reduction in stocks to the lowest point in the post-war period, approximately 500 millions. It would, however, be most unwise to jump to the conclusion that the fundamental wheat problems have been solved. A capricious Nature has probably granted wheat growers a mere temporary respite from the distressing conditions they suffered prior to the improvement just noted.

A Bank's Peanuts and Potatoes

By CLAUDE L. STOUT

BANKING is a business whose yardstick of standards contains all of the ethics of the most highly respected profession. Its ideals are exemplified in the management, while at the same time those in authority must demonstrate the same businesslike fundamental principles that govern every successful enterprise. Every person is a merchant, regardless of whether engaged in dispensing tangible goods in the form of groceries, fuel, etc., or dispensing intangible merchandise in the form of knowledge, time, services or credit. So we use the term "bank merchandise" to designate that which is bought and sold in our banking institutions.

Business is, after all, largely an exchange of services. Bank merchandise is purchased and paid for by one of two methods. The depositor always dictates which he prefers. He may receive compensation for the use of his funds in the form of services rendered through an individual checking account, or be paid outright at a certain specified rate, which is interest on time and savings accounts. In the same manner the small town merchant deals with his country customer. He will pay for the customer's eggs or other produce either in cash or an exchange of merchandise of equal value.

We have all heard the argument advanced by customers that banks do not pay for the use of that portion of the depositor's checking account which is in excess of the amount required to offset services rendered. Of course, interest on demand deposits is now prohibited by law, but even so we are still exchanging services with the customer. Suppose he were obliged to carry this money with him, or store it in some obscure hiding place about his home or business premises. In that event he would soon perceive the value of a safe storage place, one to which he has access at any time by the mere writing of an order. He is not required to purchase an insurance policy to protect his money, and it will be returned to him at full face value upon demand. If these funds were represented by bonds or other negotiable securities, he would be very negligent indeed if unwilling to pay rent on a safe deposit vault for the purpose of protecting his accumulations.

THERE MUST BE A PROFIT

IT IS recognized by the majority that any industry or business enterprise, to serve the public satisfactorily and continuously, must first make a profit. This is not theoretical. It is a business fundamental. Only in this manner can its operations be conducted upon the highest plane of efficiency. An unprofitable business is a menace to its employees, to those with whom it deals and to the community in general.

The merchant's right to charge cost, plus a reasonable profit on every single item of merchandise he handles, is never questioned. The banker needs to acquire sufficient respect for his business and merchandise to believe that it, too, is worthy of a reasonable merchandising profit. It will pay the bank executive to observe the intelligent salesmanship of the wide-awake merchant. Notice how his words and actions radiate the impression that this article really is well worth its cost to the prospective consumer. Consumption is stimulated by appreciation, with volume distribution and higher profits resulting.

The banker is not in competition with his public. Not a single item on display in any way infringes upon the rights of his customers. On the contrary, the absence of banking facilities often hinders the sale of a commodity, and prevents the seller from making a legitimate business profit. In fact, bank availability facilitates every transaction.

Every person connected with a banking institution is a potential salesman whose capacity for selling his bank's merchandise may be developed far beyond the average. If his knowledge of banking is confined to one routine job, then he is not qualified to defend the bank's merchandise in a satisfactory manner. The employee may, through study and experience, acquire a thorough understanding not only of the different routine positions in the bank, but of the philosophy and fundamentals of banking. He then becomes valuable from the standpoint of customer relations.

Banking is essentially a community enterprise. Its success is dependent to a very large degree upon the success of its customers. Directly or indirectly, every person is affected in some manner by the sale of bank merchandise.

An insurance salesman approached me one day with a very decided grievance. Charges for bank services were quite distasteful to him, for the reason that his company rendered many services free of cost, and yet was able to make a profit. Banks, according to his theory, should likewise render services to depositors free of cost in compensation for the use of their funds. We elicited the information that insurance companies adjust countless claims, settle all losses and perform other worth-while functions on behalf of their policy holders, for which no compensation is received other than the premium paid for the policy!

In this instance, we talked the language of the insurance company. If the bank is threatened with a loss, for instance on a loan, then no effort is spared to salvage everything possible. Oftentimes a compromise is effected whereby the bank accepts a percentage of the total amount due and the line is eliminated. However, the commercial department of a bank is *not* a salvage department, as is the claims department of an insurance company. When it becomes necessary for us to protect ourselves against loss in any department, the funds allocated for this purpose must come from other income, just as the expense of salvaging losses of any insurance company must come from the premium paid on the policy in the beginning.

The nature of banking places a tremendous responsibility upon its executives in fulfilling the trust of millions of depositors through strict adherence to sound business standards. It is obligatory upon them not only to give value received at all times, but through the process of education, enable the public to distinguish the difference between "quality" merchandise and an inferior product.

The $35 Gold Rush

Two methods of mining gold in the Soviet Union—washing it out with water pressure and cutting the ore with pneumatic drills

THE increase in the gold production of leading countries from 1929 to 1936 is shown in the following table of percentages:

South Africa	9
U. S. S. R.	577
U. S. A. (including Philippine Islands)	95
Canada	93
Australia	181
Mexico	16
Japan	102
Rhodesia	43
Other countries	148
World total	79

The Soviet Union, which has no internal monetary use for gold, is now the second largest gold producer and threatens before long to displace the Union of South Africa from first place. The U. S. S. R.'s 1936 gold production was 7,350,000 ounces, according to the Bank for International Settlements. Due to the increase in the Soviet Union's output, the share of world gold production accounted for by the British Empire declined from 72 per cent in 1929 to 53 per cent in 1936, despite an increase in ounces mined. South Africa, it should be noted, has been "holding back." That is, it has been working the low grade ores which the present high price has "opened up." The high grade ores are being saved for later use. The table below is based on data of the Bank for International Settlements.

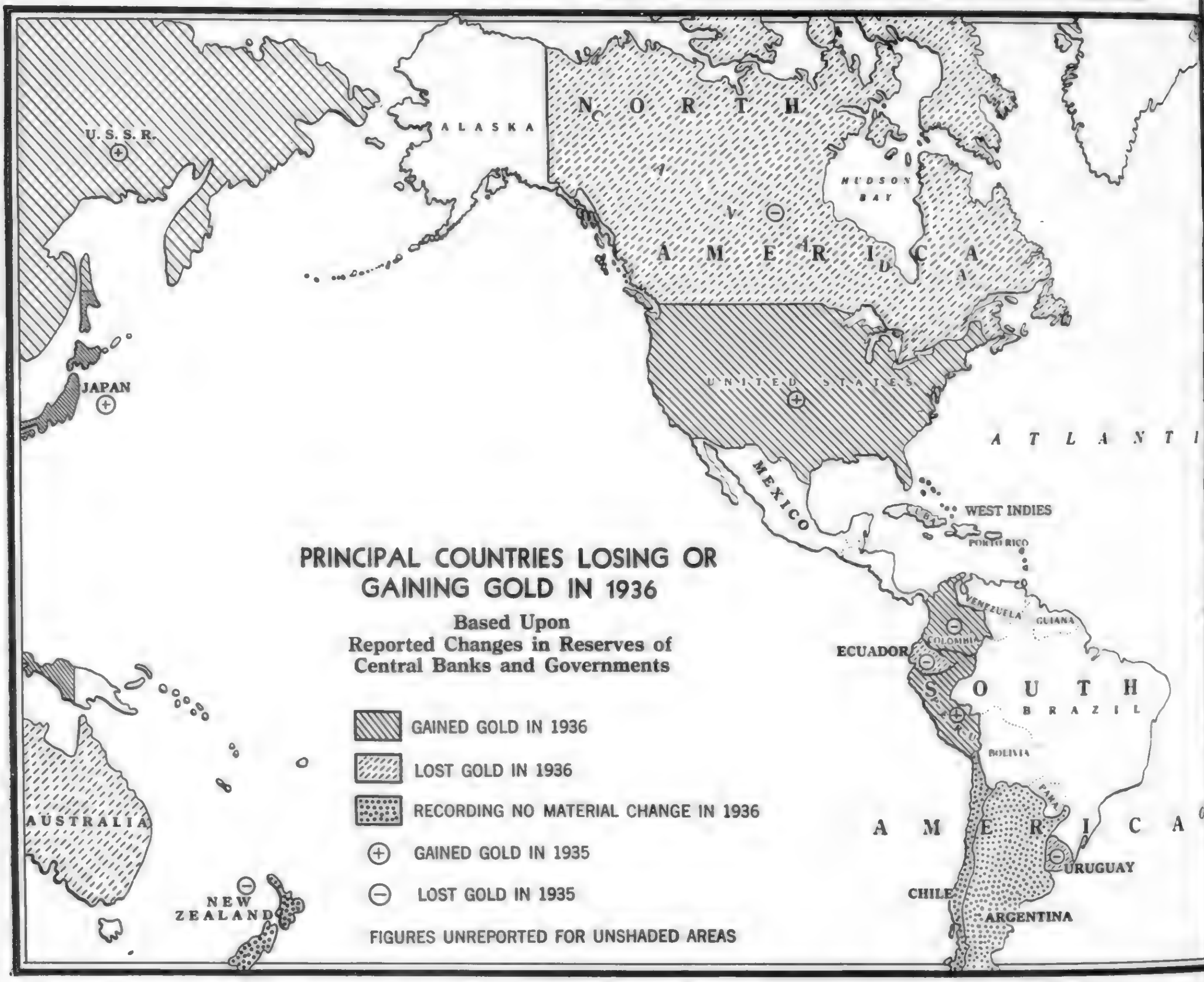
THE following table shows the principal elements in the supply and demand for gold in 1936. Omitted are an estimated $62,000,000 absorbed by the arts and industry, and $142,000,000 dehoarded by the Far East. The dollar amounts are converted from Swiss francs (data from the B. I. S.) at the rate of $0.3267 to the franc.

It will be noticed that almost two-thirds of the total found its way to the United States Treasury and the Bank of England. Considerably less than half the total came fresh from the world's mines. The vaults of the Bank of France gave up almost as much as did all the mines.

Source		*Consumption*	
Newly mined ore	*$1,315*	*U. S. Treasury*	*$1,126*
Bank of France	*1,270*	*Bank of England*	*936*
Other central banks	*351*	*Russian State Bank (estim.)*	*316*
European hoards	*327*	*Swiss National Bank*	*202*
		Other central banks and exchange funds	*683*
Total	*$3,263*	*Total*	*$3,263*

WIDE WORLD

The Federal Government decided on Ft. Knox, Kentucky, as the best location for its ever-growing gold supply. Vaults were constructed which are the last word, it is reported, in safety engineering. Federal vaults at other points have been remodeled to hold huge quantities of our imported monetary metals

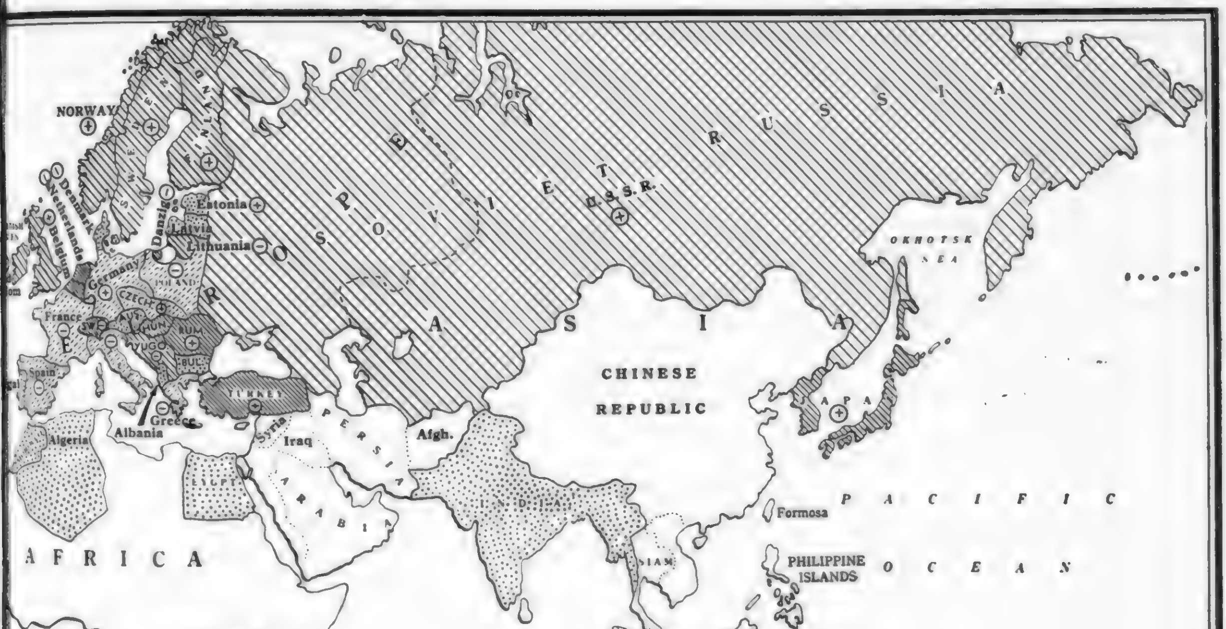


HARRIS & EWING

Estimates by the Federal Reserve Board (*left*, Chairman Eccles) indicate that total private gold holdings throughout the world are about $1,000,000,000 and that less than half that amount remains in hoards in London. In the past year, it is believed, about $1,000,000,000 has been disgorged by private holders. Experts feel that privately held gold is no longer a menace to the operation of government stabilization funds and maintenance of gold price stability

Montagu Norman (*right*), Governor of the Bank of England, arrived here on one of his periodic visits earlier this Summer. One of the questions asked the usually evasive Governor was whether he anticipated that some of the gold shipped here in the last two years would return to Europe. His answer was: "I hope not. You can keep it. We had all the trouble digging it out of the ground, but you can keep it. We don't want it."

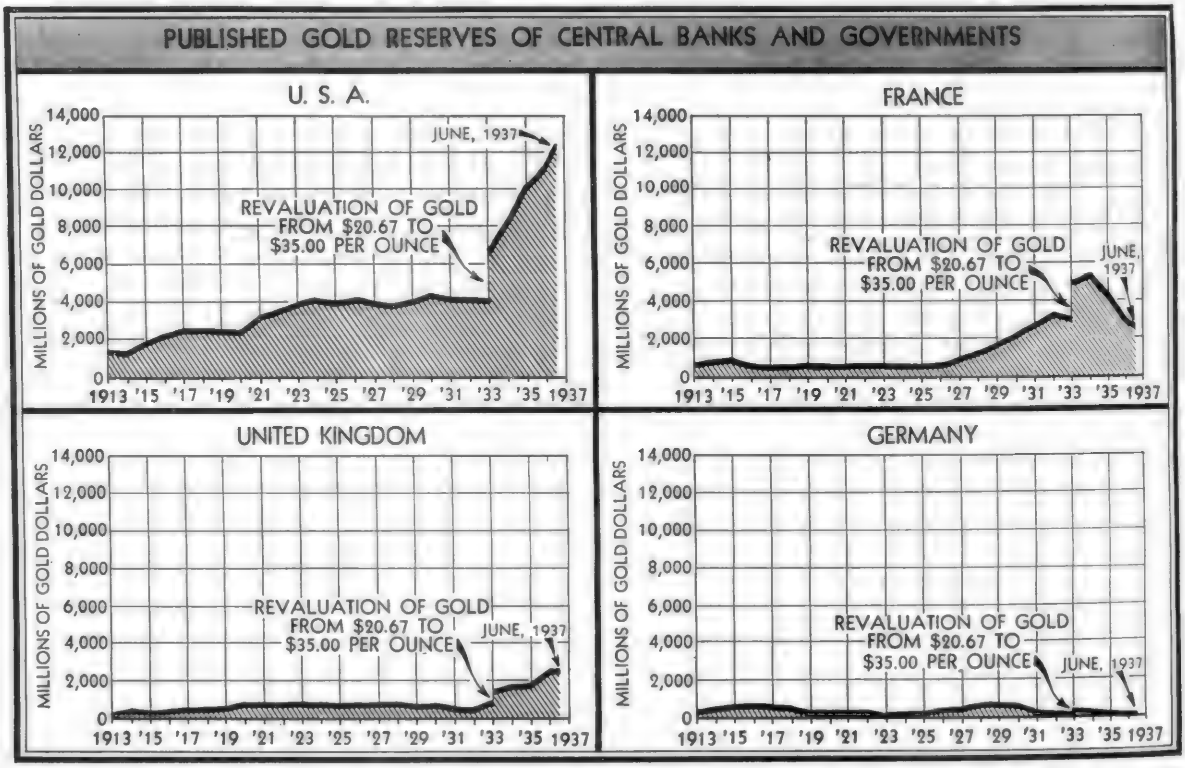
WIDE WORLD



Prof. O. M. W. Sprague, former economic adviser to the Bank of England, has urged that all countries in a position to acquire gold do so, thus helping England and the United States. He mentioned particularly the British Dominions

In a letter to the London *Times*, J. M. Keynes supported the suggestion of Prof. Sprague, suggesting that the recent Imperial Conference consider whether the Dominions could help by "exchanging their sterling resources for earmarked gold"

Sir Auckland Geddes, former British Ambassador to Washington, spoke in London of "the possible unwillingness" of our Government "to increase its national debt in order to pay for gold whereof it already has too much and whereof it can make no use"



Selling Prudence

NO TASK FOR A WOMAN

The additional burden of estate management is something no woman, engaged in social and civic affairs and interested in her home and children, would care to undertake.

As executrix under the will of her husband she would be called upon to shoulder a load of unfamiliar duties involving financial experience and personal drudgery. Demands from needy relatives; advice from uninformed persons; problems of taxation, accounting and investment—these are tasks a busy woman would hesitate to assume. No matter how much business experience an individual may have, estate management calls for specialized training and background. This has been our daily job for nearly 50 years and we urge that this institution be given the work as executor-trustee or co-executor-trustee in administering your family estate.

Our trust representative will be glad to discuss with you and your family your problems, confidentially, either at the bank or at home.

FIDELITY UNION TRUST Company

NEWARK — EAST ORANGE

NEW JERSEY

REVIEWED and REVISED

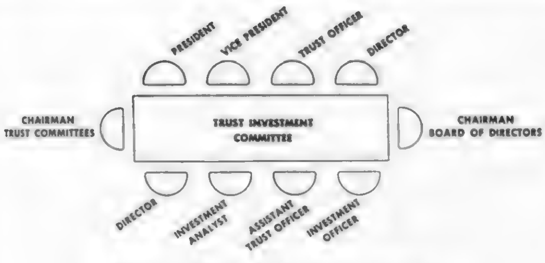
Your Bank at Work . . . Estate Planning

One of the benefits of a trust account with your bank is the friendly interest our Trust Officers display in the welfare of their clients. They are always ready to confer with them on business or personal matters. Especially is this true when dependents and those inexperienced in the world of business need guidance in their affairs. Plan your estate now to give your dependents the benefit of this service.

YOUR Will should be carefully reviewed and revised every few years to meet changing conditions. At such times you and your lawyer together with one of our Trust Officers should go over every detail carefully, making changes wherever necessary. More harm than good may result from an out-of-date Will. Your Bank with its personal trust services will help solve such problems.

The Fort Worth National Bank

B E T T E R B A N K I N G



Every Trust Investment Must Pass This Jury

Every recommendation as to purchase, sale or retention of a stock or bond for a Wachovia estate or trust comes before our central Trust Investment Committee for final decision.

First, our Trust Investment Department, after carefully gathering and analyzing the latest available data on the securities in question, presents reports and recommendations to committee members, in ample time for preliminary study before each meeting.

Supplementing this detailed information with broad personal experience, the Officers and Directors on the Committee have, in addition, thorough knowledge of the circumstances and needs of the trust beneficiaries whose investments are being considered.

We believe in group judgment on trust investments, based on ample information from reliable sources. Experience to date indicates that this policy is worth following in future.

WACHOVIA BANK AND TRUST COMPANY

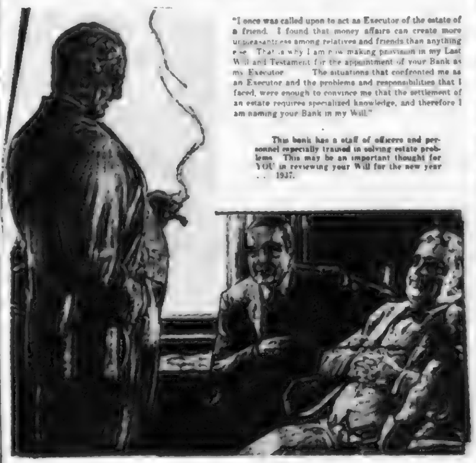
ASHEVILLE — HIGH POINT — WINSTON-SALEM — RALEIGH — SALISBURY

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION • MEMBER FEDERAL RESERVE SYSTEM

W 14

As Told to Our Trust Officers

A well-known business man called recently at our Trust Office and said to our Officers: . . .



"I once was called upon to act as Executor of the estate of a friend. I found that money affairs can create more unpleasantness among relatives and friends than anything else. That is why I am now making provision in my Last Will and Testament for the appointment of your Bank as my Executor. The situations that confronted me as an Executor and the problems and responsibilities that I faced, were enough to convince me that the settlement of an estate requires specialized knowledge, and therefore I am naming your Bank in my Will."

This bank has a staff of officers and personnel especially trained in solving estate problems. This may be an important thought for YOU in reviewing your Will for the new year . . . 1937.

The Ohio National Bank

Member Federal Reserve System — AFFILIATED WITH BANCOHIO CORPORATION — Member Federal Deposit Insurance Corporation

12 MODERN BANKING OFFICES

Trust Department Office—30 East Town St.

Tune in WBNS—Every Sunday—11 A. M.—Ohio National Bank Program—"The Country Church of Hollywood."

"Our Strength Your Protection"

Selling Prudence

(Continued)

Public Relations Begin at Home

IN many banks in the United States employees have organized activities ranging from stamp clubs to golf tournaments. Often space is provided in the bank building for recreation of various kinds—reading, chess, ping-pong and other diversions. In some instances the bank holds Christmas parties and picnics. On this and the following pages are examples of these activities in two American banks, and, for comparison, one bank in Germany, where employee relations are carefully fostered. Immediately following are pictures made at the recent outing of the Wachovia Bank and Trust Company (Winston-Salem, N. C.) where employees were guests of Robert M. Hanes, president of the bank.

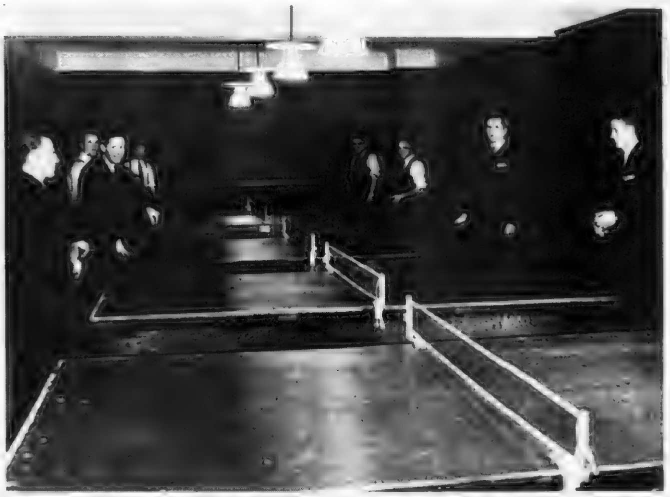
Above, a golf match. *At left*, the winning baseball team. *Below*, less strenuous games on the lawn

Below, guests at luncheon

At the left a skit is being presented and, *right,* a barbecue supper served on the lawn

EXAMPLES of employee services and activities carried on within the bank are these pictures from the Cleveland Trust Company, Cleveland, Ohio. Here, as elsewhere, what the various employee groups are doing is reported in a publication of the bank, in this case the *Cleveland Trust Magazine*

At the right, the bank's ping-pong room



Below, an employee makes use of the dispensary maintained by the institution

Above, the employees' bowling team

Above, the recreation room, where bridge and checker addicts gather

Left, the kitchen in the bank's main office cafeteria

Below, a Christmas party, which is an annual affair of the employees' club

Below, members of the staff present a skit on the bank's customer relations training program. This was part of the entertainment at one of the "Official Family Club" gatherings. This group is made up of officers, department heads, branch managers and assistant managers

Above, a dance for employees at one of the city's hotels

IN many German banks rather elaborate provision is made for the convenience of employees in their spare time. For example, below are shown a chess tournament, an indoor tennis court and a gymnasium in the office of the Deutsche Bank und Diskontogesellschaft

GLOBE

GLOBE PHOTOS

A Banker's Leading Rôle

PHOTOS FROM THE GENERAL ELECTRIC CO. MOTION PICTURE, "FROM NOW ON"

To Jim, a young banker (standing in the doorway), owning a home with up-to-date housekeeping equipment is merely a subject that his fiancee plagues him with at least once a day. But Mary is pretty certain that bad kitchen dispositions, like Naomi's, are mainly due to bad kitchen equipment

Unable to make any impression on Jim's prejudice, Mary persuades her father that their home can be much improved by judicious remodeling and re-equipping. Plans are drawn up at an architect's office

The new kitchen is the scene of a demonstration

What Naomi can't understand is how the same current heats the stove and freezes the ice

Meanwhile, Jim gives modernization and home building some serious consideration, because he feels himself responsible for some unrentable apartments his board of directors has on hand. Some of his more experienced friends advise him to go ahead. He does and it works. With these results fresh in mind, he pilfers Mary's scrapbook of all the ideas that show exactly the home she wants. He finishes building it just in time to keep the patient Mary from giving him up as a hopelessly old-fashioned young man

This Year New England

The American Bankers Association will hold its Convention in Boston for the third time, October 11–14. The two earlier Boston meetings were in 1886—when the delegates were absorbed in the silver question—and in 1913—when agricultural problems and a central reserve system were of great interest

WILBUR L. CROSS
GOVERNOR
PHILIP HEWES
EXECUTIVE SECRETARY

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD

June 9, 1937

Mr. Tom K. Smith, President
The American Bankers Association
St. Louis, Missouri

Dear Mr. Smith:

As Governor of Connecticut it gives me great pleasure to welcome the members of The American Bankers Association to New England this year.

Here in October is a bright and pleasant land, with rolling hills and fields, with forests arrayed in the brilliant hues of autumn; with rivers and lakes and rushing streams that still keep in their names echoes of the long Indian past; with many friendly harbors along beautiful shores; with modern growing cities and industrial centers, as well as old elm-shaded villages; with seats of learning which have brought fame to our State; with splendid highways linking all together.

I am sure that if you visit Connecticut while in New England you will find the people of the state ready to bid you welcome.

Most sincerely yours,

Wilbur L. Cross

ms

Wilbur L. Cross, Governor of the State of Connecticut

STATE OF RHODE ISLAND & PROVIDENCE PLANTATIONS
EXECUTIVE CHAMBER
PROVIDENCE

July 14, 1937

Mr. Tom K. Smith, President
American Bankers' Association
St. Louis, Missouri

Dear Mr. Smith:

I have recently been informed that the American Bankers' Association has selected New England for its annual convention to be held in October of this year.

It was indeed pleasant news, and as Acting Governor of the State of Rhode Island and Providence Plantations, I desire to extend to your Association a cordial and sincere invitation to visit Rhode Island while in New England and enjoy the many attractions we have in this state founded by Roger Williams.

I am sure that the many educational, historical, and recreational attractions in Rhode Island will provide great enjoyment for you and the members of your association.

Sincerely yours,

Raymond E. Jordan
Raymond E. Jordan
Acting Governor

REJ:CHB

Robert E. Quinn, Governor of the State of Rhode Island and Providence Plantations

Governor Charles F. Hurley of the Commonwealth of Massachusetts

Governor George D. Aiken of the State of Vermont

CHARLES F. HURLEY
GOVERNOR

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE DEPARTMENT
STATE HOUSE. BOSTON

July 8, 1937.

Tom K. Smith, President
American Bankers' Association
St. Louis, Missouri

Dear Mr. Smith:

I was indeed gratified to learn that the American Bankers' Association has selected New England for its annual convention in October.

As Governor of the Commonwealth of Massachusetts, may I extend to your membership a cordial invitation to come to Massachusetts and New England for this convention and to take this opportunity to enjoy the varied vacation delights as well as the educational, historical and cultural attractions and more important still, to know better the people of Massachusetts and New England.

I assure you that the coloration of the forests which reaches its peak in October has no equal in any other part of the world.

Cordially yours,

Charles F. Hurley

GEORGE D. AIKEN
GOVERNOR

CHARLES T. PIERCE
SECRETARY OF CIVIL AND MILITARY AFFAIRS
SAMUEL H. BLACKMER
EXECUTIVE CLERK

STATE OF VERMONT
EXECUTIVE DEPARTMENT
MONTPELIER

June 9, 1937

Mr. Tom K. Smith
President, American Bankers Association
St. Louis, Missouri

My dear Mr. Smith:

As your Association will hold its National Convention in New England this autumn, I wish to suggest that October will be an ideal time for your members to see New England and to urge each one to plan his trip to allow plenty of time for a real New England vacation.

The scenic and historic attraction of New England is world-famous and you will find the hospitality of our people second to none.

Sincerely yours,

George D. Aiken

Governor

GDA:EMH

State of Maine
Executive Department
Augusta

LEWIS O. BARROWS
GOVERNOR

June 12, 1937

Tom K. Smith, President

American Bankers Association

St. Louis, Missouri

Dear President Smith:

Maine is happy to join her sister states of New England in extending a cordial welcome to the 1937 National Convention of the American Bankers Association.

We, of the Pine Tree State, urge members of the Association to attend the Convention and to reap the pleasures of a vacation in New England.

We also hope that the Association does not wait another fifteen years before holding its Convention within the northeastern section of our Union.

Sincerely yours,

Lewis O. Barrows

Lewis O. Barrows

GOVERNOR

EXECUTIVE DEPARTMENT
STATE OF NEW HAMPSHIRE
CONCORD

FRANCIS P. MURPHY
GOVERNOR

June 15, 1937

Tom K. Smith, President
American Bankers Association
St. Louis, Missouri

Dear Mr. Smith:

I have been told that the American Bankers Association is to hold its National Convention in New England in October of this year, this being the first time your Association has met in this part of the country for over fifteen years.

It is a matter of considerable satisfaction to me that you have made this decision because, by holding your Convention in a recreational country such as ours is, you will afford your members an opportunity to combine business and pleasure, to enjoy a vacation in New England and, at the same time, participate in the serious business of the National Convention.

I do not need to tell you, of course, of the many attractions which this part of the country has for the vacationist. Your members who come from the interior of the country will be lastingly thrilled by the wonders of the seacoast, especially the novelty of salt-water bathing. The high mountains, the placid lakes, the rivers and streams, the garden-like countryside -- all of these, taken with the background of old culture and historic lore -- make a visit to New England delightful, healthful and educational.

It is my earnest hope that the bankers who attend your Convention may find it possible to arrange to take their vacations at the same time. They will find much in New England to interest them and it would make their visit a memorable one.

Yours sincerely,

F P Murphy

Governor

fpm/s

Lewis O. Barrows, Governor of the State of Maine

Francis P. Murphy, Governor of the State of New Hampshire

Meetings and Activities

A Proposed Amendment

A RECOMMENDATION of the Administrative Committee for amendments to Section 8, Article II, of the Constitution of the American Bankers Association has been approved by the Executive Council and is published here for the information of the membership of the Association. It will be recommended for adoption at the forthcoming Convention in Boston.

The following is quoted from the report of the Administrative Committee to the Executive Council, September 21, 1936.

"Section 8, Article II of the Constitution provides for special membership in the Association of Federal Reserve Banks and Federal Land Banks as follows:

'The Federal Reserve Banks and Federal Land Banks shall be eligible to special membership with all the rights and privileges of active membership, subject to such restrictions upon active participation in the affairs of the Association, office holding and such other restrictions as the Federal Reserve Board and the Federal Farm Loan Board, respectively, may choose to impose, and such special members shall not be bound by resolutions or declarations of policy by the Association, its Executive Council or any of its committees.'

"Since the name of the Federal Reserve Board has been changed to Board of Governors of the Federal Reserve System, the Federal Land Banks have been brought under the supervision of the Farm Credit Administration, and the Intermediate Credit Banks have been established under the supervision of the Farm Credit Administration, the Administrative Committee recommends that Section 8 of Article II should be amended to read as follows:

'The Federal Reserve Banks shall be eligible to special membership with all the privileges of active membership, subject to such restrictions upon active participation in the affairs of the Association, office holding and such other

(CONTINUED ON PAGE 52)

THE BOSTON CONVENTION

Interest in the American Bankers Association Convention, to be held in Boston October 11–14, is evidenced by the letters from New England state governors on pages 45–47. Travel schedules for the Convention appear on page 88.

CONVENTIONS

A.B.A. Meetings

Oct. 11–14	A.B.A. Convention, Statler Hotel, Boston, Massachusetts

State Associations

Sept. 9	Delaware, Rehoboth Beach
Sept. 22–23	Kentucky, The Brown Hotel, Louisville
Nov. 4–5	Nebraska, Hotel Cornhusker, Lincoln
Nov. 11–12	Arizona, El Paso, Texas
Nov. 11–12	Mid-Year Trust and Banking Conference, New Jersey, Berkeley-Carteret Hotel, Asbury Park

Group Meetings

Sept. 6	Group 3, Oklahoma, Oklahoma City
Sept. 11	Group 4, Colorado, Durango
Sept. 14	Group 6, Missouri, Doniphan
Sept. 15	Group 7, Missouri, Springfield
Sept. 16	Group 8, Missouri, Joplin
Sept. 17	Group 4, Missouri, Warrensburg
Sept. 21	Group 5, Missouri, St. Louis
Sept. 22	Group 1, Kansas, St. Joseph, Missouri
Sept. 22	Group 3, Missouri, St. Joseph
Sept. 23	Group 2, Missouri, Chillicothe
Sept. 24	Group 1, Missouri, Kirksville
Oct. 27	Group 2, Kansas, Lawrence
Oct. 28	Group 4, Kansas, Manhattan
Oct. 29	Groups 6 and 8, Kansas, Norton
Nov. 2	Group 3, Kansas, Coffeyville
Nov. 3	Group 5, Kansas, McPherson
Nov. 4	Group 9, Kansas, Liberal
Nov. 5	Group 7, Kansas, Greensburg
Nov. 11	Group 11, Oklahoma, Enid

Other Organizations

Sept. 8–11	National Security Traders Association, Atlantic City, New Jersey
Sept. 9–10	Maine Savings Banks Association, Squaw Mountain Inn, Moose Head Lake
Sept. 13–14	Annual Convention of the Insurance Advertising Conference, Briarcliff Lodge, New York
Sept. 13–15	Annual Convention of the Morris Plan Bankers Association, Broadmoor, Colorado Springs, Colorado
Sept. 13–16	Financial Advertisers Association, Syracuse, New York
Sept. 16–18	Savings Banks Association of Massachusetts, New Ocean House, Swampscott
Sept. 20–21	Boston Conference on Distribution, Hotel Statler, Boston, Massachusetts
Sept. 21–23	American Association of Personal Finance Companies, Hotel Indiana, French Lick Springs, Indiana
Sept. 23–25	Annual Conference of National Industrial Advertisers Association, Edgewater Beach Hotel, Chicago, Illinois
Sept. 23–27	Annual Meeting of the American Trade Association Executives, French Lick Springs Hotel, French Lick, Indiana
Oct. 8–12	Annual Convention of the Association of Bank Women, Hotel Somerset, Boston, Massachusetts
Oct. 11–14	Annual Meeting of the National Association of Bank Auditors and Comptrollers, Boston, Massachusetts
Oct. 13–15	Mortgage Bankers Association of America, Cleveland, Ohio
Oct. 15–16	New Hampshire Savings Banks Association, Mountain View House, Whitefield
Oct. 18–23	Annual Convention, National Association of Real Estate Boards, The William Penn Hotel, Pittsburgh, Pennsylvania
Oct. 20–22	Savings Banks Association of the State of New York, The Greenbrier, White Sulphur Springs, West Virginia
Nov. 3–7	Annual Convention of the Investment Bankers Association of America, Greenbrier Hotel, White Sulphur Springs, West Virginia
Dec. 27–30	American Accounting Association, Atlantic City, New Jersey
Dec. 28–30	American Economic Association, Atlantic City, New Jersey

G. Colucci, *President*

TELEPHONE CONNECTIONS

OFFICE AND MILL: KING AND CLARENDON STREETS

SOUTHERN BOX AND LUMBER COMPANY

MANUFACTURERS OF

VENEERS AND PANELS

WATER AND RAIL SHIPMENTS

WILMINGTON, N. C.

February 11, 1937

George S. May Company
134 Peachtree Street
Atlanta, Georgia

Gentlemen:

In reply to your inquiry of the 9th, we are pleased to advise that we are still using the Wage System you installed in our plant in the Fall of 1931.

During these five and one-half years, we have found that your Wage System has been most beneficial to us in controlling costs and securing a steady out-put from our various machines. We sincerely believe that your installation helped us in weathering the recent depression, and frankly we do not see how any manufacturing plant can get along without an up-to-date modern Wage System such as you installed in our plant.

Yours very truly,
SOUTHERN BOX & LUMBER COMPANY,

By GColucci
President.

c/f.

Employed
May Company in 1931

Still Enjoys Benefits of
May Service

MAY METHODS REDUCE COSTS AND IRON OUT KINKS IN PRODUCTION

This Is What May Company Did

1 Installed wage incentive and cost control systems throughout the entire plant.

2 Synchronized general manufacturing operations to eliminate waste space, time and motion. Applied modern and more efficient mechanical adaptations.

. . . and These Are the Results

1 Actual reduction in pay roll ***exceeded our estimate*** by approximately 10%.

2 Number of units produced per machine substantially increased . . . thus adding materially to plant output without enlarging or expanding equipment.

May Methods Can Do for You What They Have Done for Hundreds of Others . . . Write Our Nearest Office for Details Today

ENGINEERS

GEORGE S. MAY COMPANY

CHICAGO
2600 North Shore Ave.

SEATTLE
710 Second Avenue

ATLANTA
134 Peachtree St.

NEW YORK
122 East 42nd St.

CANADA: George S. May, Ltd., 320 Bay St., Toronto

restrictions as the Board of Governors of the Federal Reserve System may choose to impose. The Federal Land Banks and the Federal Intermediate Credit Banks shall be eligible to special membership with all the privileges of active membership except the right to vote, subject however to such restrictions upon active participation in the affairs of the Association, holding office and such other restrictions as the Farm Credit Administration may choose to impose. Such special members shall not be bound by resolutions or declarations of policy by the Association, its Executive Council or any of its committees.'"

"Not in the Public Interest"

BELIEF that "the establishment of an agency or branch of a Federal savings and loan association in Illinois would be an invasion of the state's autonomy and would constitute unfair competition with established banks and building and loan associations located within the state," was expressed in a statement presented to the Federal Home Loan Bank Board by Robert M. Hanes, Chairman of the Committee on Federal Legislation, American Bankers Association, relative to the petition by the Peoples Federal Savings and Loan Association of Peoria, Illinois, for permission to establish an agency at Pekin, Illinois. Mr. Hanes is president of the Wachovia Bank & Trust Company, Winston-Salem, North Carolina.

"At present the people of Pekin, a city of 16,000 inhabitants, are offered the services of two banks, both conducting savings departments—the American National Bank and the Herget National Bank—with total deposits in excess of $5,500,000," the statement said. "At Pekin, also, are three state chartered building and loan associations, with total assets of nearly $5,000,000. These well established institutions should be adequate to supply the thrift and home-financing needs of a community of this size, and the creation of an additional thrift and home-financing institution would work undue injury to them, as the new institution would of necessity draw its customers from among the customers of the existing institutions.

"In Illinois branch banking is prohibited by state law. In consequence, no banks, either state or national, have the right to establish branches in Illinois. Branches of state chartered building and loan associations are not permitted."

The Association believes, the statement added, "that the intent of Congress in authorizing the creation of Federal savings and loan associations was to limit the scope of their operation to an extent that they receive no undue competitive advantage over banks and state chartered building and loan associations in the development of the thrift and home-financing field. This intent is clearly evidenced by the statutory instructions to the Board that no charter shall be granted to a Federal savings and loan association 'unless the same can be established without undue injury to properly conducted existing local thrift and home-financing institutions' (Section 5(e) Home Owners' Loan Act of 1933). Since the creation of these associations is circumscribed by law it follows that the establishment of agencies or branches thereof which are not expressly authorized by the Act, but merely permitted by rules and regulations of the Board, should be subject to the same test.

"We, therefore, believe that it is not in the public interest to permit the establishment in Pekin, Illinois, of an agency of the Peoples Federal Savings and Loan Association of Peoria."

Bank Women's Program

THE program for the annual convention of the Association of Bank Women in Boston, October 8 to 12, is being arranged by a committee under the chairmanship of Miss Catherine S. Pepper of the National City Bank of New York. In addition to business meetings, convention events include a dinner at the Junior League, Boston; an outing at a country estate near Boston; and a meeting in the main banking rooms of the First National Bank of Boston, with members of the American Bankers Association which meets in Boston October 11-14, as guests. The Boston Symphony Orchestra will play.

At the annual dinner on the evening of October 12 at the Hotel Somerset greetings will be extended to the women by Tom K. Smith, President of the American Bankers Association. Other speakers are Miss Ada Louise Comstock, president of Radcliffe College, and Dr. John H. Williams, professor of political economy at Harvard University and vice-president of the Federal Reserve Bank of New York.

On the dinner program also is presentation for the first time of the Jean Arnot Reid Award, given by the Association of Bank Women in honor of Miss Reid, one of its founders, who recently retired from the banking profession. For many years she was assistant treasurer of the Bankers Trust Company, New York. The 1937 award will be made in the Association's Middle Atlantic Division to the woman graduate of the American Institute of Banking, not a member of the Association, who is selected as best fitted to represent women in banking.

State Banks Survey

CONTINUED improvement in the condition of state chartered banking institutions, with an increase of about three billion dollars in a year in total resources, is shown in the annual survey of resources and liabilities and earnings and expenses of state banks, issued by the Committee on State Bank Research of the State Bank Division, American Bankers Association, under the chairmanship of W. S. Elliott, vice-president and cashier, Bank of Canton, Canton, Georgia.

"Resources of 10,299 state supervised banks in the nation amounted to $38,652,726,000 at the end of 1936, a gain of 8.2 per cent over 1935, and total deposits were $33,184,292,000, a gain of 8.7 per cent," the report says.

"Comparison of the figures of condition for total state supervised banks for the period from December 31, 1932, to 1936," its report continues, "reveals that total resources of these banks reached their lowest figure on December 31, 1933, standing at $30,617,808,000, and that since the end of 1933, they have continued to rise during each consecutive year, showing a gain of 26.2 per cent on December 31, 1936, over the low year 1933.

"Loans and discounts for the first time in five years increased during 1936, showing a gain of 3.5 per cent over 1935. Investments, steadily increasing during recent years, rose by 9.7 per cent in 1936, 12.6 per cent in 1935, and 14.5 per cent in 1934.

"Total deposits in 1936 aggregated $33,184,292,000, representing a growth of 8.7 per cent, in comparison with an increase of 11.8 per cent in the preceding year, an increase of 8.9 per cent in 1934, and a decrease of 7.4 per cent in 1933."

The report shows details of resources and liabilities in tabular and graph form for state (commercial) banks, loan and trust companies, private banks, stock savings banks, mutual savings banks, and total state supervised banks. The survey of earnings and expenses reveals that in state banks which do a commercial business gross earnings from current operations showed an increase of 13.4 per cent in 1936 over 1935 and that more than 15 per cent of gross earnings was turned into profits after current operating expenses in 1936, compared with 2.3 per cent in 1935.

Earnings and expenses of state banks doing a commercial business are given, including a study of sources of earnings and a comparison of earning rates on loans and investments as well as income from service charges. Other items treated are: interest paid on deposits, salaries and wages paid, taxes paid, losses on loans and securities, etc., profits and cash dividends.

"The chief source of earnings in state banks doing a commercial banking business in 1936," according to the report, "was from loans and discounts from which 50.1 per cent of gross earnings was derived. From investments, 26.3 per cent of gross income in 1936 was earned.

"Current operating expenses, amounting to 71.2 per cent of gross earnings in 1936, compared with 74.5 per cent in 1935, decreased.

"Net profits before dividends in 1936 ranged between $1.65 and $.37 per $100 of deposits. After dividends average net profits for 1936 amounted to $.57 for each $100 of deposits, compared with $.38 for 1935."

Another section of the report presents interesting data showing earnings and expenses of insured commercial state banks grouped according to size of banks for the year 1936.

In the foreword Mr. Elliott says: "It has been the purpose in preparing this report to furnish information in such form that the individual bank might compare its record and status with that of other banks of similar size in the state or other states. It is hoped that a careful perusal of the subject matter will give to bankers throughout the country a clearer picture of banking operations, banking resources and a broader viewpoint from which they may envision, to some extent at least, the future for American banking."

Life Insurance Trust Councils

THE National Association of Life Underwriters and the Trust Division, American Bankers Association, have joined in the publication of a booklet, *Life Insurance and Trust Councils*, which is further described as "a handbook setting forth the objectives, origin, and method of organizing these associations." Included are forewords by Blaine B. Coles, President of the Trust Division, American Bankers Association, and Theodore M. Riehle, president of the National Association of Life Underwriters.

The booklet contains many valuable suggestions for organizing councils, typical articles of association, typical activities and suggested topics for discussion at meetings. There is in addition a directory of life insurance trust councils and a bibliography on the subject. Copies may be obtained at 25 cents each.

Public Relations

DEALING with the concrete ways in which a number of banks have met particular phases of their public relations problems, the American Bankers Association has issued the second study in its newly established series on "Public Relations for Banks."

The various cases presented, says the study, "compositely suggest how all the major aspects of a bank's activity may be made to play a part in bringing about better public relations for it. The approach to public relations for banks is a manifold problem, not one to be met by a single method or par-

(CONTINUED ON NEXT PAGE)

CALENDAR—Continued

ticular device for creating popular goodwill toward a bank out of hand."

The subjects treated in the study are: "Bringing All Factors Into Action"; "Training Personnel for Better Public Relations"; "Public Relations and Some Changes in Loaning Methods," and "A New Public Relations Approach in Bank Advertising."

The F.A.A. Convention

SYRACUSE, New York, is host to the 22nd annual convention of the Financial Advertisers Association, September 13–16. Headquarters for the four-day gathering of people interested in financial advertising and public relations will be at the Hotel Syracuse.

Improvement of technique in advertising, customer cultivation, new business and other activities will be discussed at morning sessions, while informal afternoon meetings and forums will take up such timely subjects as the development of personal loans, radio advertising and pay-as-you-go checking accounts.

The program provides numerous features of practical value to the representatives of banks, investment houses, advertising agencies and financial publications, and a large attendance is expected.

Standardization in Bank Accounting

RECOGNIZING the need and desirability of uniformity and standardization in bank accounting, particularly in bank statements of condition, and profit and loss statements, the Bank Management Commission of the American Bankers Association has issued a manual covering this phase of banking.

"It was felt that much would be contributed to bank accounting if a suggested list of general ledger accounts could be set up with a definition of the items which each account should include, then to arrange these accounts in a sequence which would facilitate the preparation of the various statements required by bank supervising authorities, and finally to set up a suggested statement of condition or balance sheet, and an operating or profit and loss statement," says a foreword by H. H. Griswold, president of the First National Bank & Trust Company, Elmira, New York, and Chairman of the Commission.

With this end in view a committee was appointed to study these points, and the resulting principles are set forth in the present study. The items covered in the manual are: "Chart of Accounts"; "Statement of Condition Form"; "Manual for Chart of Accounts," and "Suggested Form of Profit and Loss Statement."

The study was prepared by E. V. Krick, vice-president, American Trust Company, San Francisco; J. M. Sorensen, vice-president, Stephens National Bank, Fremont, Nebraska; and Ben E. Young, vice-president, National Bank of Detroit.

The Berlin Congress

R. S. HECHT, chairman of the board, Hibernia National Bank of New Orleans, represented the American Bankers Association, of which he is a former President, at the 1937 Berlin congress of the International Chamber of Commerce, June 27–July 3. In his report on the meetings to President Tom K. Smith, Mr. Hecht observed that "it may as well be frankly said that in most countries commercial policy is no longer dictated by the individual business men but is determined largely by the political powers."

"Consequently," he continued, "the resolutions passed carried no official weight and did not finally solve any of the grave international problems which still trouble the world. But in them some of the world's best business minds have given expression as to what could or should be done to bring about a better understanding in the dealings of various commercial nations with each other with a view of reviving prosperity throughout the world. It seems doubtful, however, whether their respective governments will pay heed to this sound advice and take the necessary action to carry the various suggestions into effect — especially since such universal stress has been laid on the need for strict balancing of the budgets — as a *sine qua non* of permanent stability and world economic reconstruction.

"The attitude of the American delegations was constructive throughout and Secretary Hull sent a very statesmanlike message reiterating our country's desire to cooperate with other nations for international peace and trade. The election of Thomas J. Watson as president of the International Chamber for the ensuing two years was not only a well deserved reward for his untiring efforts in the interest of world trade over many years, but it was also a real compliment to the United States. Under his presidency new opportunities are afforded to our country for leadership in bettering the economic relations between nations and developing trade between America and the rest of the world."

TO MAKE PROPERTIES MORE PROFITABLE

install AUTOMATIC ANTHRACITE HEATING

Many properties have reverted to bank ownership. Long-term mortgages too, are prevalent. Thus, new maintenance and renting problems have arisen to threaten the security of the mortgage.

Banks are finding profitable answers to these problems by installing automatic Anthracite heating. First: immediate equipment economies are achieved. The existing Anthracite equipment will often give many more years of service. By installing a thermostat, automatic heat may be had. Or, if desired, complete automatic fueling and ash disposal may be installed. Second: the enduring qualities of Anthracite equipment are definitely proven. It frequently outlasts the home. Third: more profitable sales, or more profitable tenants are attracted to homes with modern Anthracite equipment because of the low annual heating cost. This economy is established. Anthracite is safer and cleaner.

Anthracite equipment, too, offers the most recent developments in automatic heating. It is most modern, built for the present, and to meet future contingencies.

Would you care for more information on this more permanent, more profitable home heating? Write to ANTHRACITE INDUSTRIES, Inc., Chrysler Building, New York.

(SEE ADVERTISEMENT ON OPPOSITE PAGE)

Picture shows one basement modernization made possible with clean automatic Anthracite heating

ANTHRACITE INDUSTRIES INCORPORATED approved

This seal appears on Anthracite Equipment only after it has passed the most rigid tests in the heating field.

Pennsylvania
ANTHRACITE
COAL

THE SOLID FUEL FOR SOLID COMFORT

MORALE

Your employes will be actually better employes living in the security given by National Surety Fidelity bonds. Fidelity bonds are written upon a sane evaluation of business risks caused by the unknown and unknowable in human nature. When issued they are a tribute to employer and employe alike.

Prompt payment of just claims makes every day a pay day for some one in National Surety Town. And this assurance of ready cash to repair shock losses contributes to the peace of mind and efficiency of your whole staff.

National Surety representatives everywhere — themselves picked men — are selling Fidelity bonds and blanket bonds; plus protection against burglary, forgery, and many other dangers.

NATIONAL SURETY CORPORATION
VINCENT CULLEN, PRESIDENT *New York*

Read how Kardex turns ONE *Customer into* FOUR

YOU needn't look far for new business when Kardex is on the job. The man who has a safe deposit box is a good Trust Department prospect; the substantial savings account is a prospect for the Trust Department or a safety deposit box. If Depositor Jones—or any other customer—is a prospect for additional banking service, this handy Central Information File will tip you off.

QUICKER FACTS ON CUSTOMERS. By bringing scattered, disorganized customer facts together in one compact file, you simplify the answering of questions that arise every day—names and addresses, phone numbers, credit ratings, summary of previous transactions. You can find any or all of these facts in a matter of seconds on any given account any time you want.

PAYS FOR ITSELF. Besides enabling you to keep an eye on your best prospects for new business, the Kardex Central Information File cuts clerical costs too. Gives you speedy, error-proof filing for less money than you're paying now. Let us show you how soon it will pay for itself! Phone the Remington Rand office in your city or, if you prefer, simply mail the coupon for complete details. Remember, you are under absolutely no obligation.

MAIL COUPON TODAY

Remington Rand Inc., Dept. B-19
465 Washington St., Buffalo, N. Y.

Please send me, without obligation, complete details of new money-saving Kardex Central Information File System.

Name . . . .

Street . . . .

City . . . . State . . . .

OK.. it's from **Remington Rand**

METHODS and OPERATIONS

A clearinghouse of practical ideas submitted by readers of this magazine

Automobile Loans

BELOW is outlined the automobile loan system successfully used in a small bank that has made more than $300,000 of these loans during the past 18 months. This sum was loaned to over 750 borrowers, 160 of whom have repaid their obligations in full; the balances outstanding on the remaining 590 borrowers aggregate $180,000. Thus some 40 per cent of the volume of all such loans made has been repaid, and the average balance on those remaining is somewhat less than $300.

For simplicity, the credit statement obtained from the borrower is outlined on the reverse side of the lease agreement. This form can be placed on the reverse side of a conditional sales contract, chattel mortgage form, or whatever form of lien is proper in each state. Again for reasons of simplicity, the note is attached to the lease agreement and is filled in and signed when the contract for purchase of the automobile is executed. This note provides for payment to the dealer through whom the automobile is being purchased, and is subsequently endorsed "without recourse" to the bank.

If the prospective purchaser comes directly to the bank to arrange for his loan, the credit information is then obtained and the agreement prepared by the bank for delivery to the dealer who will in turn assign the contract and return it to the bank for payment. In an equal number of cases the purchaser will not come to the bank but will complete the forms and make all his arrangements for credit at the dealer's place of business.

The bank does not make payment in any event, however, until the credit of each individual has been thoroughly investigated. If the credit reports are satisfactory, the note is recorded in the discount register and disbursement accordingly made to the dealer recited in the agreement. The contract is then set aside for use in preparing a request for insurance coverage which is provided under the bank's blanket insurance policy, which includes comprehensive and $50 deductible collision coverage.

The next step is preparing the ledger record, which is made in duplicate on a special visible ledger card. This record provides for the description of the car, its make, model, motor and serial number, date of note and contract, together with the number of payments and amount of each. Provision is also made for a breakdown of the face of the note into the amount of interest, insurance, reserve for losses, and the net loan or amount paid to the dealer. Record is made of such information as the date the title certificate is received, by whom received and checked, and the number of the coupon book issued to the purchaser. A colored tab is placed on the lower right side of the card and held by the pocket of the holder to indicate an absent title; it is removed when the title certificate is received by the bank. Other indicators correspond to the day and month the next payment is to be made. The balance of the note is entered on this record and payments are posted by hand rather than by machine, due to the type of cabinet and file used which makes machine posting impracticable.

These cards are made in duplicate, the duplicate being a carbon copy of the original, used only as a tickler record and filed in chronological order under the date payments are due. This procedure serves as a double check against the ledger record insofar as payments are concerned, although balances are not extended on the duplicate card unless a payment goes past due for a week. In such instances the information regarding the balance and payments is transcribed to the duplicate record, and the account assigned to an officer who retains it until the account is brought up to date.

The ledger record is maintained in a floor model cabinet fitted with swivel wheels and casters.

After setting up the ledger and tickler files, a coupon payment book is sent by mail to the borrower. The number on this book corresponds to that shown on the ledger card, and is prepared by merely punching holes through the dollars and cents columns representing the amount of monthly payment, and punching the date and the month following that in which the contract is written. In punching through the month of December on the first coupon, for example, the punch mark will pass through the month of January on coupon number two, inasmuch as the names of the months on the month line are moved one space to the left on each succeeding coupon. Frequently a partial payment is made or a payment made without the coupon being sent to the bank, in such cases a coupon is used, upon which no numbers appear, and is thus filled in for the amount and date of the respective payment.

The use of a coupon book greatly simplified the detail work involved in handling this type of loan, and has proved equally popular with our customers. It eliminates the necessity of sending advance notices of monthly payments, and the amount of work involved in this practise. The coupon itself is used as a credit voucher by the bookkeeper posting the payment on the ledger record.—J. B. GRIEVES, Cashier, National Bank of Union City, Union City, Pennsylvania.

Coordinated Advertising

A BANK is not obtaining full value from its advertising effort unless every piece and message is so coordinated that it is immediately recognized and identified with the institution. In a flash, it should register "That's a First National Bank ad."

First, it would be well to adopt some distinctive style of lettering for the name of the institution and see that it is used wherever an advertisement appears. Then, some dominant feature such as a distinctive border design which may be changed slightly to fit varying needs but will preserve the resemblance so that one who sees your newspaper advertisement will instantly recognize the bank's poster, car-card, calendar, blotter or direct-mail literature.

Now, as to coordinating subject matter. If the subject of a month's direct-mail piece is to be checking accounts, checking accounts can be advertised in statement enclosures and in the newspapers, and on car-cards and posters. One of the large soup companies makes many different soups but concentrates its advertising on one at a time. If Scotch broth is being sold over the radio, then every one of the company's printed advertisements at that time is extolling Scotch broth. Its other varieties are mentioned, of course, but only incidentally.

Use successful merchandising methods and sell one service at a time. If it is

checking accounts, then sell checking accounts through every advertising medium. However, be sure to sell checking accounts *at your bank*, not just the advantages of checking account service at any bank.

It is not so much a question of spending large sums of money on advertising to influence the public to use a banking institution and its services as it is to use every endeavor to make the money spent bring maximum returns. Coordination of effort and media is the solution.

A. PATTERSON FIRTH

Handling Items Quickly

FOR some time banks have been maneuvering to eliminate duplication of sorting and listing of items. The ideal system in the proof department would be to sort and charge all items direct to proper departments with one handling. Such a system has been developed at the First National Bank & Trust Company, Minneapolis, Minnesota, through a combination of a sorting rack and a machine.*

This machine will accumulate and carry 20 totals; therefore, with sorting equipment to accommodate that number of compartments it is possible to charge and distribute to 20 divisions. The machine also has 20 motorized classification keys which control the accumulators as well as direct the sorting of items to the corresponding compartments by automatically illuminating a signal light in the compartment that should receive the item.

Furthermore, each deposit ticket, cash letter and in-clearings list is automatically proved as the items are charged and distributed to the divisions, for if the items listed do not agree with the total entered the machine automatically locks; consequently the errors in addition on the deposit ticket, missing items, or items incorrectly listed are detected immediately. This eliminates the cross checking necessary under the batch system when a batch does not balance. If an error is discovered, the correction is made on the machine and a record of the correction appears on the audit tape.

An original and a duplicate tape issued by the machine show the number of the machine, number of deposit and number of the classification and compartment receiving the transaction. The original provides a permanent office

* National central control proof machine.

record, and the duplicate affords a work record for checking errors, locating missing checks, and other purposes.

The machine prints and issues a slip that shows the classification symbol and consecutive number for identification, and since there is a separate accumulator and compartment for each department an individual total can be taken at any time. This affords an even flow of work to all departments as the sorting rack is open and the items can be removed easily from the regular operating position.

The machine's first seven numbers are assigned to transit work. All items drawn on banks in Minnesota that are within three alphabetical groups go direct to the transit operators who then make the fine sort for all the towns in that group. These items are then posted on transit letters to be forwarded in the mail for collection. The balance of transit business is sorted according to the key marking and mailed out for payment.

The cash tickets used by our tellers are numbered to facilitate the sort and establish a proof figure after they are handled by the proof machine.

Although we have five alphabetical divisions in our bookkeeping department, all bank debits are sorted together and charged in one total by the central control machine.

To simplify sorting, checks drawn by depositors are classified as three groups —A, B and C. Our check forms have been printed with the letters A, B and C in the lower right hand corner near the signature. Forms bearing the letter A are given to depositors with names included in the alphabetical group A–E; "B" forms are given to depositors in the F–M group; and "C" forms to depositors in the N–Z group. When these checks return to our bank the operator at the machine sorts them by letter and not signature, eliminating the delay of deciphering the maker's name.

Clearing batches received from other banks have a total or tape that can be proved as the items are listed to the various departments; therefore, during the distribution of the items any errors in listing by the other bank are detected at once and cross checking is not necessary. This results in a faster delivery to departments.

COUNTER DEPOSITS

COUNTER deposits from the tellers are handled as follows: After the teller counts the cash and substitutes a cash ticket the entire deposit passes through the exchange department and then to the central control machines for distribution.

The operator sets up the grand total of the deposit in the machine, then proceeds to list and sort the items included in the deposit. In case of an error the machine locks and an adjustment must be made before the operation can proceed. This gives an individual proof of each case as the machine is entirely automatic and proves the addition on the ticket.

After the cash letters, in-clearing lists and deposit tickets are proved by the control operator they are stamped to show the number of the machine handling the work, and the number of the run, which identifies the audit tape that has the detail record.

As most errors are found in deposits of 10 entries or less it has been our policy to segregate the smaller deposits in separate batches when necessary. Deposits of the larger business houses are very seldom incorrect. In view of this fact the separating of the smaller deposits eliminates the cross checking of batches that would otherwise balance.
—J. H. REED, Manager, Central Proof Department, First National Bank & Trust Company, Minneapolis, Minnesota.

Files

IT is beneficial from time to time to study all the records of the bank and to note the extent to which the same information is maintained in different places. The necessity for easily accessible records within a department, and for filing in different manner the same information, will often justify what may seem to be some duplication.

However, once a complete survey is made of all types of files, whether ticket, credit, or correspondence, and all types of register and ledger records, the appropriate officers will be in a position to determine through consultation with those who use the information what eliminations and consolidations are possible.

In making a change of system, the error is commonly made of providing for more information of record than is necessary, and in cross-reference filing systems more copies than may be really needed. In an active, and particularly in a growing organization where changes in method are frequent, over-abundance of record files can easily result.

A by-product of a management study of files and records is likely to be that records which the management has believed were adequate are found not so, because they are not being kept in good condition, due to unsatisfactory supervision, the withdrawal from the files of material which is not returned, or the lack of periodic transfer to the archives of matter which has outlived its current usefulness.

A. S.

Sale of Bank Service

IN these days of easy money, low rates and meager earnings it is refreshing to hear of a bank that is steadily and consistently building up profitable business, covering its dividend requirements and adding to surplus.

This institution is a district bank in a large city and has deposits of approximately two and a half million dollars. It is in the wholesale produce section and specializes in commercial business, although it has built up quite substantial small checking and personal loan departments.

About three years ago, when the banking spotlight was first focussed on the need for better public relations, this bank determined to do more than educate its public as to the whys and wherefores of banking. It decided to follow the methods of its own most successful customers and go out and sell its services.

The idea of business solicitation by banks is of course by no means new, but almost invariably such efforts are of the hit or miss variety, with calls made only when officers have the time. Or, if a new man is appointed for business solicitation, it is usually but a few weeks before he is loaded with routine work in the bank to a point where he has very little time for calls.

This bank appreciated the need for steady, consistent and intelligent selling and determined to put a good salesman on the street and keep him there. Using commercial methods again, it looked for an experienced salesman who knew the district rather than for a man who understood banking.

Such a man was located, given a little schooling as to what type of business to solicit and then given carte blanche as to where he went and what calls he made. All that was required was that he should make a brief report each evening as to his movements during the day. He was employed on a straight salary basis.

He was instructed to concentrate solely on better class commercial busi-

ness and he has continued to do so, although he has brought in quite a little savings and safe deposit business, which has happened to come his way. The bank has no trust department.

During the first 12 months 162 commercial accounts were obtained, with aggregate initial deposits of $160,510. At the end of the year an analysis showed 16 accounts closed (10 per cent) and the remaining 146 accounts with an average monthly balance of $988.

The second year was remarkable in that not only did the average balances of the first year accounts maintain their level, but the average balances of the second year accounts were almost identical with the first year.

A total of 137 accounts was obtained in the second year, with aggregate opening balances of $122,200. Eleven accounts (8 per cent) were closed during the year, leaving 126 accounts with an average monthly balance of $999.50.

It is noteworthy that the same consistency both as to number and amount is being maintained now.

A remarkably interesting comparison was developed by this bank during 1936. An officer-employee contest for new business was staged in that year from May 1 to July 15, and during that period 326 commercial accounts aggregating $172,650 were obtained. However, six months later 65 of these accounts had been closed and total balances had declined to $131,470, an average of but $503.70 per account. The business obtained as a result of this contest was in no way as substantial and desirable as that brought in by the full-time solicitor.

As to the profitability of this solicitor's sales efforts, the increased income to the bank can be figured on a 3 per cent net basis (5½ per cent income, less 2½ per cent overhead) because many very desirable commercial loans have been made to these new customers and practically the whole of the increased deposits has thus been absorbed. Calculations on this basis on the average monthly balances, and deducting the then 15 per cent reserve requirement, show an income of $10,352.49 for the two-year period.

The total expense incurred by the bank in obtaining this business has been a little in excess of $4,000 for the two-year period.

Therefore the effort shows a substantial profit apart from the cumulative good will which is accruing to the bank as a result of the solicitor's daily interviews and the ever-widening circle of friends he is making for the bank.

The Personal Touch

IT is a common criticism that the larger a bank gets the less personal is likely to be its contact with its customers, and while to a marked extent this may be true, there is no necessity of its being so. The management of a growing bank or of a large bank must be constantly concerned with matters of customers' service, intimate contact, and courtesy.

By means of intimate group meetings, official participation in staff events, outings, and the like, it is not at all impossible in a large organization to maintain the utmost friendliness between members of the staff and between officials and staff. If cultivated within, such a spirit is more than likely to manifest itself in contact with customers. The staff all along the line is likely to emulate its chief and its seniors, and if the latter always insist upon careful and helpful consideration of every customer's problem, adjusting every matter that arises with fairness both to the staff and its clientele, there is little likelihood of the criticism being made that because of its size an institution is cold.

Mere size, of course, is likely to give an impact of unnecessary coldness if care is not exercised in such things as the appointments about a banking office, its fixtures, lighting, architecture, and the like. All these things can make their contribution toward hospitality as against mere dignity.

The most propitious occasion to impress the principles of cordiality and helpful consideration is in the adjustment of error. Error adjustments and the correction of the difficulties that may lie behind them afford a great opportunity to develop friendly helpfulness.

Overhead and Indirect Expense

IN order that the bank may obtain periodically, although not necessarily monthly, indicative reports of the true net of the various operating divisions—departmental or branch—it is rather essential not only that all income be shown but that all expenses incurred by the operation in question be shown. It is never difficult to get the direct operating expenses incurred by any subdivision, or that will usually be manifested by continuous double entry bookkeeping, but with regard to the distribution of overhead and indirect expenses, inclusive of expenses incurred by one operating unit for another, various methods are in use, and a bank must choose the most appropriate method that fits the situation.

There is the net deposit basis, about the only item of advantage in which is simplicity. It is usually inaccurate because by and large all forms of overhead and indirect expense will vary more in accordance with activity than they will with size of deposits. However, certain expense factors are properly distributed in accordance with deposit totals, and it is up to each bank to determine which these expenses are.

The allocation of indirect expenses in ratio to the direct operating expenses of the various divisions and branches has real virtue because there are many indirect and overhead items that do vary mainly in accordance with the total of direct operating expenses. Salary costs usually comprise a good share of the total of direct operating expenses and in consequence the expenses of personnel supervision, for example, might well be allocated in proportion to direct operating expense total.

A combination of the two methods, wherein deposit totals and direct expense totals are given equal weight, has virtue, and of course where such a compromise method is in use the weight given to each factor may be shaded depending upon the comptroller's or auditor's best judgment as to weight to be assigned to each factor in respect of the allocation of any particular type of overhead expense.

Floor area is a satisfactory basis of distribution of such items as rent and light.

Distribution of indirect expense in accordance with income is a simple but inaccurate basis of overhead distribution.

The more study that is given to the allocation of administrative and other indirect expense, the more reasonable the basis of distribution, the less likelihood of change in basis, and the more likelihood there is of satisfactory periodic comparatives.

Business Exhibits

IN recent years it has become the practice in smaller towns and suburban districts to stage an annual business show, sponsored by the local business men's association or some similar group.

The largest hall in the community is rented for a week, the floor space divided into booths or sections and sold to local tradespeople to display their

wares. An orchestra is provided, door prizes are given, auctions are held and other inducements offered to attract the crowds.

Naturally, the local banks are expected to lead in taking space and almost invariably do so, but in most cases they are at a loss to know what to do with the space allotted to them. A desk, a couple of chairs, some palms in the rear and the bank's name across the front or back of the booth is often the limit of their inventiveness, with perhaps some left-over folders on the desk to be picked up by passers-by. More often than not, the booth is deserted and its advertising value is detrimental rather than advantageous to the institution it represents.

One bank solved the problem of how to use its business show space at very little cost. Its display took the form of a moving exhibit and created considerable interest and favorable comment. It consisted of a model of the bank mounted to eye level on a wooden framework and with people continually passing through the bank entrance. Across the top was a sign reading "People in all Walks of Life use the First National Bank".

A colored reproduction of the bank's facade was first made to scale on Upsom board and cut out—the size in this case being 42 inches wide by 30 inches high. Either a sign writer or an artistically inclined high-school student could be employed for this work. The entrance to the bank was cut out, and the board then fastened in an upright position about 12 inches from the front of the framework.

Two 24 inch discs or circles were then cut from Upsom board. On these, mounted in an erect position around the edges and at irregular intervals, was a series of cut-outs of men, women and children (adults about 5 inches high). These, also, were cut out of Upsom board and painted actually to represent "people in all walks of life"—white collar men with and without hats, storekeepers in aprons, etc., laborers in overalls, youths, young women, older women with children and children alone or in pairs.

HOW IT WORKED

THE discs were then placed horizontally beneath the building so that when they revolved, the people appeared to come and go around the sides of the building and enter and leave the bank door. The size of the figures should of course be regulated in proportion to the size of the door opening, as in real life. The figures were all in profile and facing the same way on both discs, so that with the discs both revolving in the same direction, people on the right disc were coming from the right and entering the bank, and on the left disc they were leaving the bank and passing around to the left.

Large grooved wood pulleys were glued to the underside of the discs and it was then a comparatively easy matter for the local electrician to hook them up to a one-eighth h.p. motor, using gears to make the discs turn at a natural walking speed.

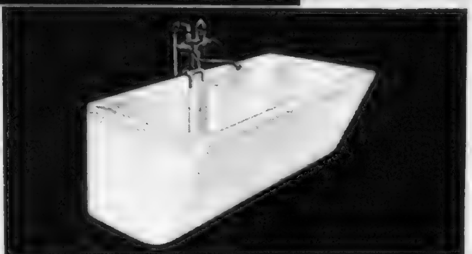
In front, between the discs, a piece of Upsom board was mounted to complete the illusion of a sidewalk and, because the bank adjoined other buildings, painted wings were added at the front sides of the bank model to hide the people coming and going around the sides and to give them the appearance of just coming and going along the street.

A back drop of cheap sky-blue muslin suspended behind and above the model furnished the sky effect, and a navy-blue drape of similar material around the lower framework gave the whole exhibit a finished appearance. The motor was "plugged in" when the show opened each day and was allowed to

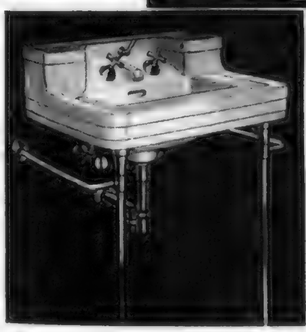
(CONTINUED ON PAGE 66)

To Protect BOTH Lender and Borrower CRANEQUIP

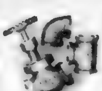
Here's a sink that will catch any housewife's eye—the Crane *Sunnyday* with its many step-saving features.



The Crane Everbrite Laundry Tub is built from the ground up for convenience and lasting cleanliness.



This Crane vitreous china lavatory is an example of Crane's ability to make practical things beautiful.



Crane has the world's largest and most complete line of valves and fittings, tested in the laboratory and on the job. A house should be CranEquipt *throughout.*

USING CranEquipment for new construction or modernization is the best possible protection for lender and borrower alike. For the lender, CranEquipment assures greater security . . . provides lasting value. For the home builder, Crane products in kitchen, bathroom and basement mean minimum maintenance costs . . . greater convenience . . . fewer replacements.

It costs no more to have the superior quality that the name "Crane" assures. The Crane line is so large, so comprehensive, that it contains quality products at every price level for every type of new or remodeled dwelling. The "extras" that Crane puts into its products exact no extra premium.

For convenience in inspecting CranEquipment, Crane maintains 110 Display Rooms throughout the country, where anyone can see and examine Crane quality for himself.

CRANE

CRANE CO., GENERAL OFFICES: 836 S. MICHIGAN AVENUE, CHICAGO, ILLINOIS

Branches and Sales Offices in One Hundred and Sixty Cities

VALVES, FITTINGS, FABRICATED PIPE, PUMPS, PLUMBING AND HEATING MATERIAL

(CONTINUED FROM PAGE 64)

run until closing time without any attention.

Also, it was found to be good advertising when the show finally closed to transfer the exhibit to the lobby of the bank (a display window is much better if you have one).

As to the cost, the total expenditure, including rental of motor but exclusive of the booth rental, was $62, and worth every penny from the standpoint of the attention and comment it created.

Advertising Ideas

WHEN everything is boiled out of it, bank advertising is simply an attempt to get the bank's name before the public in a favorable light. If a bank's methods are such as to do that, then its advertising is a success.

Take, for example, the window display contest a Wyoming bank ran a while ago. Instead of putting formal displays into its windows, it urged its customers and the townsfolk to bring in odds and ends of the unusual for display. At the end of each week the president and two of his directors formed a committee to judge the best exhibit and award it a prize. Like the exhibits, the prizes varied. Thus a business man, displaying his old coin collection, was awarded a pint of bonded and the elderly lady, who showed a handmade quilt, received an award of cash. It was all informal and friendly, but that was the kind of town it was, and hence the contest built good will for the bank.

Then, out in California, a northern California bank sends each depositor a greeting card on the birthday of his account. The card thanks him for his business during the preceding year, expresses a hope for the continuance of the association and asks that, if he has any complaints, to make them known. Then the card is signed by someone who personally knows the account with, perhaps, a personal word or two added.

Attacking the problem from a different angle is the bank that recently invested in a supply of match books, the covers of which stress the value of savings accounts. These it inserts in envelops of the payrolls it makes up.

Another bank seeking loans, rather than savings accounts, sent an officer out to contact all the insurance agents among its depositors. He urged them that when a policy holder needed to borrow on his policy as collateral to send him to the bank instead of putting the loan through the insurance company. As a selling point the bank stressed that it would put the loans on an instalment basis through its personal loan department, thus reducing the risk of lapsed insurance policies.

Similarly, on the subject of loans, an up-state New York bank, in advertising its small loan department, lists the number of loans made in each class of the business, together with the average amount of each. This brings out pretty well the true retail nature of the business. Mr. John Public might not care that his bank had lent $10,000,000 in personal loans, but when told that his bank had lent 125,000 persons an average of $80 each, his reaction would be very different.

Banks here and there are publishing what might be called popular banking essays along with their statements of condition. Thus, instead of saying "loans and discounts of such or such an amount" and letting it go at that, they point out that the bank lent money to individuals and business men to build houses, buy automobiles, plant crops and so on, and that all together the lending of the bank had vastly improved the entire business structure of the community through stimulating trade.

A Strong Deposit Insurance System

WHEN the insurance or guaranty of bank deposits became an issue four years ago, two principal objections were offered. One objection was that in any such system either the Government or strong banks would be compelled to carry or meet the losses of weak institutions. The other was that such a system would encourage loose banking.

One can read the reaction of the F.D.I.C. to both these objections in the policy it is following. The primary consideration in the corporation's management is the prevention of current insurance losses by the prompt elimination of banks which cannot make the grade and the prevention of future losses by keeping weak banks out of the system. In the six months ending June 30 there was a net decrease of 86 in the number of insured banks, chiefly as a result of the movement for the elimination or consolidation of weak or insolvent institutions. Offsetting the 38 banks admitted to insurance during the half year there were 21 suspensions, 102 mergers, absorptions or voluntary liquidations and one bank ousted from the system. During the same period only seven banks were chartered in the whole of the United States which had not entered the insurance system and by that means had the approval of the corporation's management. Thus, instead of encouraging looseness in banking policies and practices, the corporation has pursued so strict a course in determining conservatively the soundness of banks that the latter are now more closely and effectively supervised than at any time in banking history in this country.

The corporation is now engaged in a survey in cooperation with state and other supervisory authorities to determine what further corrective steps can be taken with regard to weak and unsound institutions and especially with a view to requiring that banks with insufficient capital, but still needed in the communities they serve, shall either be adequately recapitalized or merged with stronger institutions. The corporation is acting upon the general proposition that if a bank remains unsound or insolvent during several years of business recovery there is little hope that it will survive during a period of decreasing prosperity. Hence it should be eliminated.

As regards saddling strong banks with the mistakes of their weaker colleagues, the finances of the corporation for the half year, in line with its experience during 1936, indicate that the capital furnished by the Government, together with accumulated reserves, are more than carrying the burden of both loss and operations. Contributions from the strong banks, as well as all others in the system, are building it up rather than merely carrying the weak banks. Premium assessments are going toward the establishment of reserves which will ultimately render a reduction in the deposit insurance premiums safe and practicable. In the interest of conservatism, that time should probably be postponed for several years, but, with the policies of strict supervision and the elimination of weak banks and the protection of the system from future weakness by preventing the admission of unsound or unnecessary institutions, the practicability of a reduction is evident.

GEORGE E. ANDERSON

Personalized Checks

By DUNLAP C. CLARK

TWO years ago our officers (American National Bank, Kalamazoo, Mich.) decided on a program of selling "personalized checks" to customers—suggesting the imprinting of their names and addresses on their checks, rather than using the stock forms customarily provided. In this short time, 98.3 per cent of business houses and almost half of the individual customers have adopted such checks.

While this is only a small part of the whole customer relations program, it "breaks the ice," providing an unusual method of approach which in itself is important to any merchandising plan. It has the further unusual advantage that it not only has involved no expense to the institution, but has actually resulted in a marked saving in cost of supplies.

The term "personalized checks" is of psychological advantage, offsetting the reservation still lingering in the public mind that the banking relationship is a cold and impersonal one. Few hesitate at the small expense of half a cent a check ($2.50 for 500), which covers the cost of the stock as well as the printing.

Advantages from the customer's standpoint may be tabulated as follows:

1. A "personalized" check like his own engraved or printed letterhead. Many people who would not think of writing letters on blank stationery casually picked up in a store still use the ordinary impersonal checks supplied by banks.

2. A legitimate form of advertising for such professional men as physicians and attorneys, who ethically frown upon other publicity methods.

3. A safeguard in paying bills, minimizing the possibility of the payee's carelessly crediting the proceeds to wrong accounts should checks become separated from invoices and signatures be difficult to read. The address on the check prevents receipts, if requested, from being misdirected.

4. Minimizing the possibility of forgeries, for bookkeepers, used to seeing printed checks employed, would naturally scrutinize more closely those drawn on other than the customary form.

5. Facilitation of stop-payment requests, as there is no possibility of the customer numbering checks out of sequence, as the numbers are printed on the checks.

6. Facilitation of identification in cashing checks where the drawer is unknown.

7. Ease, because of the numbering, in monthly reconcilement of vouchers and statements with the records of the bank.

8. Special checks with modified voucher-forms on the face, which are available without extra charge. These styles have enjoyed good demand.

These advantages are not merely theoretical, but have been brought to our attention by customers who have used the checks. Their popularity is perhaps best evidenced by the re-orders received, and the fact that practically no clients revert to the stock forms.

Advantages to the bank are obvious:

1. As mentioned, saving in check inventory. This cannot, of course, be entirely eliminated, as some customers still insist upon the ordinary stock checks.

2. Faster sorting of checks to the proper bookkeepers and almost entire elimination of checks charged to wrong accounts.

3. Business and personal accounts of the same individual more easily segregated.

4. Pride of ownership of the personalized checks, which necessarily ties the customer more closely to the bank and makes him less likely to shift his account for little or no reason. There is also, in this connection, the intangible psychology of the banker's interest in the customer, evidenced by discussion of this service with him. This may at first thought seem inconsequential, but men generally are found to be flattered by the extra attention and little additional time spent when they are opening their accounts.

5. Less waste of checks, as the customer guards them more closely and is less inclined to use them as memorandum pads.

To undertake the program originally, the clerks filing checks compiled a list of those concerns and individuals not employing printed checks. A mimeographed letter was directed to these companies and selected personal accounts, pointing out briefly the advantages and negligible expense of personalized checks, and enclosing samples of several styles which had been prepared, without charge, by the printers. While the communications resulted in many orders, it was found, as typical of most public relations work, that a subsequent word from an officer was more effective. Each officer kept a copy of this "prospect list" on his desk as a reminder, checking off names as he talked with them. As new accounts were opened thereafter, printed checks were discussed with each customer, and those ordering them were given a small supply of ordinary checks of the same size for temporary use. A display board with samples of printed checks is located in a prominent place in the bank lobby.

While this subject may seem to many bankers unimportant for such extended discussion, it is hazarded that an intelligent trial will convince the most skeptical of its lasting benefits both to the institution and the customers. In larger banks, where the routine of opening accounts is delegated to certain officials or senior employees, it is probable that printed checks receive fair emphasis. In smaller institutions where all officers handle such transactions the president himself should set the pace for the plan to prove fully effective, as is the case in any public relations program.

COLONIAL CONFERENCE

Three governors of U. S. island possessions recently conferred with Department of the Interior officials in Washington. Below are, left to right, Joseph B. Poindexter, Hawaii, Blanton Winship, Puerto Rico, Lawrence W. Cramer, Virgin Islands

U. & U.

Personal Independence

MUTUAL savings institutions, operating in 18 states, established new high records for deposits and number of depositors in the first half of 1937. The National Association of Mutual Savings Banks, reporting its mid-year statistics, notes that the mutuals are now serving the largest number of savers with the largest accumulation of funds in the 121 years since these banks were founded.

Their assets rose $128,735,621 in the half year to a record total of $11,588,146,918. The increase was slightly larger than that for the preceding six months, the gain for the year to June 30 totaling $238,811,336. Combined surplus for all the mutuals rose $54,272,226, making a gain for the year of $84,103,873 and bringing the aggregate surplus to $1,323,080,912. This provided 13 cents of reserve for each dollar held by mutual institutions.

A RECORD SUM

DEPOSITS expanded $106,729,514 in the first six months of 1937, which brought the total to $10,207,803,494, an all-time peak.

"This," says the Association, "was the largest sum of small capital ever gathered together in one class of banking institutions and represented about 20 per cent of bank deposits for the country as a whole."

The most impressive increase was in the number of accounts, which grew by 291,607 in the half year, the ninth consecutive semi-annual increase. The number of mutual savings accounts on June 30 was 14,759,246. The average balance was $691.62, a slight recession which emphasized the growth in new small accounts. The average dividend rate was 2½ per cent, virtually stationary as compared with recent earnings.

"It indeed is impressive to think of such a large sum of capital so widely distributed," said Henry R. Kinsey, president of the National Association and head of the Williamsburgh Savings Bank, Brooklyn, New York. "It supplies remarkable evidence of how widely this nation's wealth is distributed. To my mind the growth of new, small accounts constitutes one of the surest signs of revival. It proves that personal independence still is the goal of millions of citizens."

Institute Commencement

THE annual nationwide radio commencement exercises of the American Institute of Banking, educational section of the American Bankers Association, will be held Friday evening, September 10.

The feature of the program will be an address by Branch Rickey, vice-president and general manager of the St. Louis Cardinals baseball team. Mr. Rickey has selected "The Score Board" as the subject of his talk. He will be heard by the members of more than 220 chapters throughout the country. The program will be broadcast through the courtesy of the National Broadcasting Company from its St. Louis station and over its blue network throughout the country. The arrangements are being made by a committee headed by Robert J. Farr, of The Philadelphia National Bank.

Dr. Harold Stonier, Educational Director of the Institute, reports that approximately 2,600 members will receive their certificates that evening and that during the past year more than 35,000 students were enrolled in the various chapter classes. In the past 36 years, more than 25,000 bank men and women, many of them now officials of their respective institutions, have been graduated by the Institute.

The president of the Institute is Frank R. Curda, City National Bank and Trust Company, Chicago.

Branch Rickey

The Reserve

NEAR the western end of Washington's Constitution Avenue, with its monumental buildings of the Red Cross, the D. A. R. and the Corcoran Art Gallery, is located the new building of the Federal Reserve System, which was occupied by the Reserve Board and its organization on August 9. The new building is beautiful, suitable and worthy of the organization which carries the responsibility for so much of the nation's welfare.

It is the center building of a group of three. On its left is the new building of the United States Public Health Service. On its right is the attractive structure of the National Research Council and the National Academy of Science. The Reserve building is constructed of Georgia white marble, without columns, severely plain in itself but with the marble set off by bronze window frames and grills, and by spandrels of polished Swedish granite on which bronze plaques are mounted. On the side façades are bronze balconies whose railings are reproductions of those of an old Philadelphia residence of the early nineteenth century.

The building is H-shaped, four stories in height, 344 by 242 feet in area. It stands in ample grounds. Like the buildings on either side, it occupies a square block, and is set back approximately 200 feet from Constitution Avenue. By the adoption of a similar cornice line the three buildings appear as one composition dominated by the central portico of the Reserve building, which is surmounted by an eagle in white marble large enough and striking enough to symbolize its national character. The large approach area on the Constitution Avenue side of the building permits landscaping of great effectiveness in a series of white marble steps and terraces leading to the main entrance. These steps and terraces are dominated on either side by a formal garden, the central motif of which is a fountain of black Coopersburg granite surrounded by pebble mosaic and marble borders.

When the temporary War and Navy Department buildings on the south side of Constitution Avenue are removed the Reserve building will have an uninterrupted view of the Mall and West Potomac Park, the Lincoln Memorial and the Reflecting Pool, with a background of the Memorial Bridge over the Potomac and the Virginia hills beyond. It is, in fact, an integral part of the picture and, with that fact in view, was designed

System at Home

under the direction and with the advice of the National Capital Park and Planning Commission, the Commission of Fine Arts, the American Institute of Architects and about all the leading architectural authorities in the country. The Reserve Board wished a building which would be at home in beautiful surroundings. They have it.

The main entrance of the building opens on a lobby which leads into a corridor running through to the "C" street entrance. On the right of the lobby as one enters is a portrait relief of President Woodrow Wilson, as founder of the Reserve System. In the floor is a bronze plaque reproducing the seal of the Board of Governors. A monumental staircase leads to the second floor. From the upper landing of these stairs the Constitution Avenue end of the second floor, set apart for the Board of Governors and their immediate staffs, is reached through an elliptical anteroom. Here also is the Board Room—56 by 32 feet in size, with a fireplace of Tanerenelle Fleuri marble at one end, over which is a reproduction of the arms of the United States. On the wall at the opposite end of the room is a Federal Reserve map of the United States painted by Ezra Winter. The room is really dominated by a magnificent conference table.

And so the Reserve System finally has a home of its own. It goes without saying, perhaps, that the building is the latest exemplification of modern conveniences—air conditioned, scientifically lighted, heated from outside, conveniently arranged for service—a building really notable even in Washington, with its collection of what are now probably the finest governmental administrative buildings possessed by any nation.

George E. Anderson

The Federal Reserve Building façade

NEWS PHOTOS

Answers to Everyday Questions

"HAVE recent business and economic conditions developed an increased demand for information?" From banks as well as from all other types of business the answer is a resounding "Yes." According to an officer of one of the largest banks on the West Coast, "recent business and economic conditions have increased the demand for information in such fields as governmental agencies, real estate loan operations, and in the field of new industrial development. Generally speaking, recent conditions have affected the type of information desired more than the total volume required." A vice-president of a Boston bank calls attention to another phase: "It has been necessary for us to obtain more information in regard not only to business trends and economic conditions in this country but also in other parts of the world, especially Europe." A slightly pessimistic note is sounded in a comment from Cleveland: "The demand has increased in keeping with the average increase at large, unfortunately no more so. Although with the top executives there might be a little more eagerness to learn, the ability to absorb has not changed essentially."

This widespread recognition of a need for information raises the question as to how that need is met. A survey shows that methods differ in detail but, in general, follow three divisions. Of the 37 banks replying, 18 are without specifically organized methods of handling information problems; in six the problems are turned over to the statistical or research departments, and in 13 a librarian coordinates the information work either independently or in connection with the research or statistical departments.

THE RESOURCES ARE LARGE

WHILE the methods of handling information vary, the investment in such data is large. Of the 18 institutions without an organized reference system, 11 have no record of the amount spent for data but the other seven show an average annual expenditure of $3,700, with the highest figure given as $10,000. The six banks handling their information work through statistical or research departments show, for the three with expenditure records, an average annual outlay of $7,333. The more complete accounting available, from this angle, for the banks with information programs under a skilled librarian, shows that, of the 13 replying, all but three could list expenditures giving an annual average of $10,160, with the highest single amount $35,000.

The effect of coordinated methods under a librarian in one of the largest New York banks is shown in these notes by a vice-president: "We have for many years maintained a reference library and statistical files covering general economic and financial information. The first sources of information are our statistical files and records, and the reference library." Methods in another large bank are given by one of its vice presidents: "When officers of this bank are in need of technical, economic or business information not ordinarily accessible to them, they turn to the bank's reference library. This library specializes in gathering desired data

By MARIAN C. MANLEY

from all sources. The librarian is responsible for securing, distributing and preserving information on a wide variety of subjects in which the officers of the bank are interested." Another vice-president says: "This bank has a very well developed statistical department and also a library with a competent staff. The result is that normally we are able to obtain the information we need on business and economic conditions by availing ourselves of our own resources. Information of general interest to the officials of the bank is distributed by the library."

Systems in use where a coordinated plan has not yet been installed are indicated by a note from a Pacific Coast official: "In securing information, current periodicals in general are of more service than books. These, in conjunction with current reports from investment services, are our chief reliance. No library in the true sense of the word is maintained. There is a collection of business books and additions are made to this from time to time. At the beginning of each year members of the investment staff are consulted as to their preferences in regard to investment information and arrangements are made to conform to these preferences." A Cleveland official says: "Filling information needs is largely an individual or departmental task. The time expended in collecting, cooperating and coordinating all the work of this nature may run into several thousand dollars." One from San Francisco states that "when we need technical, economic or business information, we habitually turn first to our statistical department. We also occasionally utilize other libraries.

"Our statistical department maintains a library, primarily for reference in connection with investment analysis. It subscribes to a considerable number of statistical services and financial and economic periodicals. Some of our other departments maintain small specialized libraries for their own needs. We do not maintain a general institutional library."

From this tentative survey the evidence is that banks have, consistently, a heavy investment in current financial reference material but that the degrees of effective use of this material range from a smoothly working coordinated system to haphazard methods without skilled direction or definite responsibility.

For those officers who are looking for a satisfactory method of handling information, experienced assistance is available. The American Bankers Association has a library, under the direction of Miss Mary McLean, an expert librarian who is ready to help with this problem. The Special Libraries Association has a committee for the promotion of business libraries whose chairman, Miss Rose Vormelker, Bureau of Business Information, Public Library, Cleveland, Ohio, will assist in a study of the special problems of any institution, will make suggestions of points to consider, of libraries to visit and of personnel to help in the problem. Many bank libraries such as the various Federal Reserve banks, the National City Bank of New York, the Continental Illinois National Bank and Trust Company in Chicago, the First Wisconsin National Bank in Milwaukee, the Bank of America National Trust and Savings Association in San Francisco, and many others have bank libraries known for efficient service. All of these agencies are advocates of coordination of information and are more than ready to assist in advancing such development.

Railroad Debt Reduction

CREATION of a more flexible railroad capital structure is recommended in a report by Dr. Irvin Bussing, economist of the Savings Banks Trust Company, New York. Dr. Bussing advocates consistent planned reduction of bonded indebtedness of railroads with considerably greater future emphasis on stock financing as against bond financing. The study was made on behalf of the New York State savings banks which have been large investors in railroads securities.

The bank economist has developed a new debt reduction formula which, by way of illustration, he applies to the financial history of three railroads now in bankruptcy—the Chicago & North Western, the Rock Island, and the Chicago, Milwaukee & St. Paul. A specific purpose of the report is "to impress upon institutional bond buyers and others who are in a position to influence corporate financial policy the desirability and feasibility of debt control, in the hope that they will take this factor into account to a greater extent in the future."

A FLEXIBLE SETUP

THE report critically considers arguments for and against the reduction of railroad debt. In the former case the thesis is advanced that "in this world of change no enterprise can contemplate a future of perpetual earning capacity and therefore it cannot look with equanimity upon the practice of retaining what amounts virtually to perpetual debt." In view of the typical life cycle of any industry, with its periods of youth, maturity and old age, it is suggested that there is generally a period during which net earnings much more than offset early losses and provide, in effect, an ample capacity out of which debt reduction could be accomplished. The report does not favor a rigid formula however, but contemplates rather a flexible capital structure not burdened too heavily with fixed charges which, on the one hand, during periods of low earnings would permit a sounder allocation of such earnings as were available and, on the other hand, would permit an adjustment of prices charged (i.e., freight rates) to meet competition. The report calls attention to the difference between the capital set-up of American railways, with stock accounting for 38

per cent of the total capital, and the British capital structure wherein 71.3 per cent of the total capital is stock. It suggests that "this situation may go a long way toward explaining the fact that financial failure is practically unknown among British railroads whereas almost every American road has been reorganized at least once as a result of financial failure; and in 1935, 82 American carriers, comprising 32 per cent of total railway mileage, were in receivership or bankruptcy."

Looking at both sides of the question, the report considers principal arguments against the reduction of railroad debt. One is the probability that stockholders generally expect about twice as much return as bondholders and therefore the capital costs would be higher if stock replaced bonds to a greater degree. But, it is stated: "This argument involves a confusion of thought; the whole question is one of *relative* safety. The *form* of the investor's claim is largely immaterial. Basically it is earning capacity and priority of rights to earnings that count." Another argument holds that it is a meaningless gesture to amortize obligations with one hand, while incurring new debt with the other. But this argument, the report says, can be maintained only when the company is expanding and is not necessarily true even then if the debt reduction formula is flexible, permitting the company to purchase its own obligations or use the fund for improvements. The conclusion is that the rigid form of sinking fund is less desirable than the flexible formula which is presented in the report.

In preparing the formula Dr. Bussing has taken into account four variables: the ratio of bonds to stock, the amount of interest paid, the amount of dividends paid and a multiplier which depends upon the necessity and capacity for debt reduction in each instance.

Without going into the details of the mathematical formula, the result is an annual charge against net earnings after interest, governed in amount by the need and capacity for debt reduction.

The capacity of the American railroad industry to reduce its debt is covered in some detail, with the net finding that dividends might have been reduced from an average of 6.7 per cent to 5.8 per cent during the period 1891–1933 by which policy 32 per cent of the railroad debt would have been liquidated. However, the report goes on to show that several factors might well have combined to make it unnecessary to reduce the average dividend rate at all, particularly in view of the possibility of improving the industry's credit position through debt cuts so that it could have paid a lower interest rate.

UTAH BANKERS

The president of the Utah Bankers Association for the coming year is A. Sonne, vice-president and cashier of the First National Bank of Logan

A Field for Financing

IN a recent issue of the *Wall Street Journal* appeared the following editorial, headed "Capital for Little Business":

"That sound, well-managed business enterprises should find it desperately hard to obtain capital in a country and at a time when funds either lie idle or work for governments at a minimum wage, is to say the least an anomaly. It is, if it reaches large proportions, a seriously disturbing matter. But read the following letter to *The Wall Street Journal* from an interior manufacturer of standing:

"'I feel that the financing of relatively small concerns is a problem of considerable importance to the welfare of the entire country. There are so many thousands of the smaller concerns with all the possible variations in their conditions that such financing should and undoubtedly would cost more than the financing of the very large, well-known and more or less publicly-owned industrial or other corporations.

"'Many of these smaller companies have made excellent records throughout the years. They are generally owned by one or two families; frequently fall into the hands of heirs who have little genuine interest in the business but whose living depends upon the profits. There are few avenues open to management, employes, competitors or others for re-financing and acquiring such businesses. I believe that formerly bankers occasionally or frequently assisted such groups in acquiring ownerships, but the laws are now so restrictive that there appear to be no bankers or even investment houses who can do very much for the small enterprise unless its profit record has been quite extraordinary during the past five years.

"'Varied though the conditions may be with such small enterprises, it does seem to me that the exploration of that field for financing ought to afford reasonable possibilities for profit to the investors and leave reasonable rewards to those active manufacturers and merchants who are willing to take on the responsibilities of managing, operating and agreeing to purchase substantial interests in such enterprises.

"'There must now be in this country many great accumulations of investment money which does not need or desire immediate return, the owners of which could well afford to make thorough investigations of and reasonable investment in small enterprises with the expectation that profits accruing three to ten years hence would benefit their heirs or estates. The transfer of such holdings by gift or otherwise to heirs would be relatively free from heavy inheritance taxes while the small enterprises are in the transition or reconstruction period following the changes of ownership, rehabilitation, etc.'

"There are investment bankers in New York who readily confirm substantially all this correspondent says. Some of them add that they are in almost daily receipt of proposals that they finance enterprises requiring from \$100,000 to a million or more of long-term capital, many if not most of which come from companies able to exhibit a solid basis of appeal. Their interest in such cases encounters two main obstacles: the expense of registration under the federal security laws and of maintaining listed status on an organized exchange; the insistent demand

of individual investors and most institutions for high liquidity.

"Private marketing, without the registration which a public offering compels, is both difficult and expensive when the investment to be sold is the issue of an enterprise little known beyond its own community, no matter how good its record and prospects. It has, of course, never been exactly easy to finance the smaller undertakings economically, but the testimony of well-informed men is that it is now difficult to the point of impossibility. Yet wide-spread opinion holds the success and multiplication of relatively small but efficient enterprises to be both socially and economically more important than the further growth of units already large."

Bankless Towns

To the Editor:

AT a recent meeting of the executive committee of the National Association of Supervisors of State Banks, the question of chartering new state banks was given considerable thought. The concensus was, summed up partly, as follows: Charters should not be granted promiscuously and every effort should be made to discourage the granting of new charters unless applications are shown beyond every doubt to be merited. New banks should not be chartered without an exhaustive survey embracing many factors, a few of which may be listed: necessity, not convenience; assurance that the institution can make a reasonable profit; adequate capital; competence and character of management; financial and character standing of the incorporators; prospects of reasonably steady growth of the territory served.

Because of the general acceptance of this sound conclusion, many bankless communities are seeking some solution to their problems, other than the chartered bank, and the currency exchange, or money exchange as it is sometimes called, will in many cases meet their needs.

Since the banking holiday of 1933, currency exchanges have appeared here and there throughout the United States to provide certain conveniences and services for bankless communities. While an exchange is prohibited by law from doing a banking business, it does offer satisfactory service not only to the individuals but also to the merchants of a community. With an efficiently operated exchange, retail trade is stimulated and kept from drifting to stores in the localities where banks are to be found. This is noticeably true on pay-days.

These exchanges differ somewhat in the services which they render. Some of them operate solely for the cashing of checks; others add the service of issuing money-orders, and still others offer a wider range of service including practically all of the services usually found in the small chartered bank, with the one exception of receiving deposits. In fact one exchange in Pennsylvania has "deposits" of over $8,000. These are set up as loans from individuals to the exchange, and are evidenced by demand notes, but in reality these funds are actually deposits by patrons of the exchange, left there until needed.

The exchange intelligently managed is the answer for some bankless communities. It may cash checks, furnish change, issue money orders, write insurance, do notary public work, provide a safe place for keeping valuable papers, and accept collections for gas, electric, water and telephone accounts. In fact the services rendered by an exchange may be limited only by the training and ability of the management.

HAROLD E. SMITH
Manager, South Side Exchange
Kalamazoo, Michigan

a Symbol of Profit Farming

Allis-Chalmers has long realized that farmers are good customers only when they are prosperous. That is why this company has devoted so much attention to new developments which reduce the farmer's investment and increase his profits.

The farmer's chief source of wealth is his wage per hour. Allis-Chalmers proposes to increase this wealth in two ways:

(1) By making the time and effort of farmer-customers more productive.

(2) By reducing their investment in farm equipment.

A majority of the outstanding farm equipment developments o recent years have been pioneered by Allis-Chalmers. The rubber-tired tractor is a well-known example. With an air-tired Model "WC" Tractor, a farmer works at higher speeds and can actually accomplish more each day than was formerly possible with slow-moving tractors that cost twice as much. He uses less fuel, operating costs are lower, his first cost is reduced. His WAGE PER HOUR goes up.

Another example is the All-Crop Harvester—"Successor to the Binder." This Allis-Chalmers development ($625.00 F.O.B.) not only took the combine-harvester out of the "thousand dollar class" but gives the farmer a more efficient and lower-cost method of harvesting than he has ever known.

Allis-Chalmers equipment is economically sound. It is designed, built and priced for better farming and more farm profits!

Above: Allis-Chalmers All-Crop Harvester—cuts and threshes more than 70 different crops—at new lows in cost.

Below: Higher working speeds in Allis-Chalmers Tractors save many hours in the field—permit more attention to livestock and farm management.

ALLIS-CHALMERS

TRACTOR DIVISION—MILWAUKEE, U. S. A.

Unreasonable Search of Bank Records

IN Dauphin County (Pennsylvania) Court, President Judge Hargest recently handed down an opinion denying the right of agents of the State Department of Revenue to visit banking institutions for the purpose of examining records and ascertaining the collateral held by financial institutions for individual citizens in connection with the collection of the four-mill state personal property tax on securities.

The state had sought to obtain such information from the Harrisburg National Bank in order to locate tax evaders. The state's argument contended that the revenue department's agents were given authority under the law to make investigations of this sort. The bank's counsel, however, argued that, while citizens should pay the tax, the state's proposed method would constitute "unreasonable search and seizure" and invasion of the rights of citizens. It was pointed out that banks divulging such information might be liable in suits for damages, and that collateral securities were the property of individuals and not of the banks holding them. Also, it was shown, banks need the services of their clerks and other employees and cannot always release them for duty in connection with the state agents' search for information.

In dismissing the state's petition, Judge Hargest said that the request was too far-reaching to be regarded as reasonable. He declared that the "proposition here is not to examine the books, papers and records of any residents. The Harrisburg National Bank is not a resident of Pennsylvania."

MORE IMPORTANT CONSIDERATION

"THE efforts of the tax dodger," he said, "are not to be encouraged, and tax evasion should be condemned. The right of the state to obtain information for the proper assessment of taxes should, on the one hand, be liberally construed, but the constitutional rights of the citizen should likewise be vigorously maintained.

"To sustain the right, the officer asserting it must point to some statutory authority. If there were an issue between the Commonwealth and a named or identified resident of Pennsylvania liable for taxes, it is altogether probable that the bank officers would be subject to appropriate process for the examination of the relevant records of such person. . . ."

Judge Hargest cited a number of cases with relation to the local procedure and then declared that "there is little difference in principle between invading a man's home to search his papers and records and invading the home office of the bank where he had temporarily and confidentially placed them. If the latter invasion should be sustained, we see no reason why an invasion of his lockbox in the bank could not also be sustained. The principle seems identical. In one case the government agent looks at the record; in the other, he looks at the securities themselves."

Closing his ruling, Judge Hargest quoted Mr. Justice Bradley as follows:

"And any compulsory discovery . . . compelling the production of his private books and papers, to convict him of crime, or to forfeit his property, is contrary to the principles of a free government. It is abhorrent to the instincts of an Englishman; it is abhorrent to the instincts of an American. It may suit the purpose of despotic power, but it cannot abide the pure atmosphere of political liberty and personal freedom."

Marketing Credit

THERE is a definite need for educating the public that the bank loan is not just reserved for a favored few. People need to be told that most persons with a good credit record and a dependable income who need reasonable amounts of money for useful purposes are eligible for bank loans.

Our bank has recognized this need and has gone even further than merely telling people about a bank's lending function. It is aggressively merchandising its loan department and early this year began a "loan sales campaign" that has many features of retail marketing.

In a well-planned retail sales campaign the product must first be made as attractive as possible. Then the public is induced to buy through advertising and personal salesmanship.

It is difficult to make a bank's services attractive in the manner of the aggressive retailer. However, bank loans usually draw lower interest rates than other methods of financing. This is certainly an attraction. Accordingly, our bank featured this point in nearly all its advertising and sales literature.

By no means did the bank offer extremely low or bargain rates. As an example of charges made, loans to finance new automobiles net the bank from 8 per cent to 12 per cent interest depending on the financial responsibility of the borrower and the amount of the loan in proportion to the value of the car. Yet, actual comparison of bank charges with costs of financing automobiles through certain other channels show savings of many dollars for the bank's customer.

Advertising will play an important part in any merchandising program. Our bank used newspapers, radio, statement stuffers, direct mail, and lobby posters in telling the public about bank loans. Each medium was chosen for a definite purpose and has done its part to make the campaign successful.

The following letter, sent with cancelled checks and signed by our president, was responsible for many loan applications, a number of which resulted in new loans.

Dear Depositor:

The fact that you are a depositor of this bank entitles you to special consideration if you should need money now or at any future time.

If you can use a bank loan, you need never hesitate to apply to any First National officer for credit. You can forget "Please" and "Thank You" when you apply for a loan from this bank, because you are not asking for a favor; you are offering us business which we are glad to get and which will be judged entirely upon its merits.

The principles of sound banking, which we have rigidly followed for more than fifty-four years, prevent our accepting every loan offered us, but every applicant is always certain of courteous consideration that will eliminate any possible feeling of embarrassment if a loan cannot be approved.

Interest rates for personal loans, for the purchase of new automobiles, furniture or household appliances, commercial loans, collateral loans, agricultural loans, remodeling, building or refinancing loans have never been lower. Perhaps you are missing an opportunity to get money at reasonable rates for profitable use. There

By J. F. CORNELIUS

are many forward-looking people who are making excellent use of bank credit now.

Would a bank loan be helpful to you? Why not discuss the matter with any of the officers the next time you are in the bank? We will gladly meet your needs if it is at all possible for us to do so.

One depositor after receiving this letter said, "I don't need any money now, but I am taking your invitation to lend money to me as a personal compliment." Others probably felt the same, making the letter a creator of good will in addition to bringing in traceable business.

The month following a second letter inviting automobile loan applications was enclosed with statements, and it, too, was satisfactorily productive.

As our institution does not sell fire insurance, many local insurance agents became "automobile loan salesmen" for the bank. Whenever they discovered a prospect about to buy a new car, they naturally attempted to sell their own company's insurance and as an inducement stated that they were in a position to assist the buyer finance his car at his saving. The insurance agent sold a policy, the buyer saved money, and the bank found a profitable outlet for its money.

Reprints of our automobile loan advertisements were made and given to the various insurance agents who distributed them both by hand and by mail.

Commercial announcements on the bank's radio program were also devoted to the lending function of banks during the campaign.

It is true that our credit officers found it necessary to decline many applications, but each officer made it a point to explain his refusals fully and tactfully.

Employees were requested to mention the bank's willingness to lend money to friends who appeared to be good credit risks. Senior tellers are encouraged to join worthwhile civic organizations and in one instance income from loans arising from membership in one group is many times the cost of the annual dues to the bank.

The volume of automobile loan business alone would make the campaign worthwhile. In fact, this year's car loan volume has far surpassed that of any previous year. Automobile loans have proved an excellent investment for earnings have been comparatively high, and the bank has never had to repossess an automobile in the several years it has been making this type of loan.

CENTRAL STATES GROUP

M. A. Graettinger, executive vice-president of the Illinois Bankers Association, has been made chairman of the legislative committee of the Central States Conference

The Way to Boston

BY train, boat, airplane and automobile, bankers from all parts of the country will travel to Boston early next month for the 63rd Annual Convention of the American Bankers Association, October 11–14.

As usual, several special trips to the Convention city have been arranged. The Falltonic Special will leave LaSalle Street station, Chicago, over the New York Central at 10:45 A.M., C.S.T., October 9, arriving in Detroit at 5 P.M. After a brief tour of the city and a dinner as guests of the Detroit Clearing House Association, the passengers will leave at 9:30 P.M., a schedule that permits daylight crossing of the Berkshire Hills, in Massachusetts. The Special reaches Boston on Sunday, October 10, at noon.

ANOTHER SPECIAL

THE Missouri-Kansas Special, which will be joined by Arkansas bankers, leaves Kansas City for St. Louis at 4:45 P.M. October 7 over the Missouri Pacific after a luncheon given by the Clearing House Association of Kansas City. From St. Louis the train goes via the Pennsylvania Railroad to Pittsburgh, arriving there early in the afternoon of October 8 for a stopover of several hours. The Pittsburgh Clearing House Association has arranged for golf and an automobile sight-seeing trip, followed by dinner at a country club. The train leaves at 10 P.M. for Montreal, reaching that city at 2:10 P.M. October 9 after a daylight ride through the Adirondack Mountains. So that passengers will have plenty of time for sight-seeing, the departure from Montreal is delayed until midnight. The train reaches Boston early Sunday morning, October 10.

TEXAS BOAT TRIP

THE Texas bankers have arranged a boat trip to Boston by way of Havana. Their schedule calls for departure from Dallas via the Texas & Pacific Railway at 5:50 P.M. on October 1, arriving the next morning at New Orleans. Leaving that city at 11 A.M. on the S.S. *Santa Maria* of the United Fruit Line, the bankers reach the Cuban capital on the morning of October 4. They spend three days in Havana, sailing on the S.S. *Veragua*, also a United Fruit liner, at 5 P.M. October 7 for New York which is reached on the afternoon of the 9th. The rest of the trip to Boston will be made over the New York, New Haven & Hartford Railroad, with arrival early in the morning of October 10.

VIRGINIA'S PLANS

THE Virginia bankers are also planning a boat trip to the Convention. Departures will be made from Baltimore at 5 P.M. October 8 and from Norfolk at the same time the next day, on a boat of the Merchants & Miners Steamship Company. The party is due in Boston on the morning of October 11.

Bankers who want to travel by air will find excellent accommodations to Boston from various parts of the country.

Bankers from distant points, who plan to drive to Boston in their own cars, "seeing New England" en route to and from the Convention, will find the section particularly attractive early in October. Good roads, good stopping places, and many points of scenic, historic and industrial interest add to the appeal of this travel method.

Mortgage Investment Funds

AS the result of an exhaustive study for almost two years by a committee of the trust section of the Pennsylvania Bankers Association and its counsel, the Pennsylvania Banking Code of 1933 has been amended with a view to eliminating weaknesses in mortgage pools as exposed by the depression.

G. Fred Berger, chairman of the mortgage investment funds committee of the state association's trust section, says with regard to the changes: "That trust funds invested in mortgage investment funds will be as safe as it is humanly possible to make them, appears self-evident from an examination of the amendments."

A LAW MODERNIZED

WRITING in the *Fiduciary Review*, published by the Norristown-Penn Trust Company of which he is treasurer, Mr. Berger says the committee was "convinced of the usefulness and necessity of pools of mortgages for the investment of comparatively small amounts of trust funds, but recognized the inadequacy of existing legislation." The new act amends Section 1109 of the state code which had purported to govern the establishment, maintenance and operation of pools or funds containing mortgages, securities, or mortgages and securities, as well as fractional interests in mortgages or securities.

"Section 1109," says Mr. Berger, "has been amended so that it will hereafter apply only to pools or funds containing only securities other than mortgages. No attempt was made to redraft this section to set forth a comprehensive plan for operation of security pools. Although such pools or funds are not now in operation to any extent in Pennsylvania, the removal of the income tax objection by Section 169 of the Federal Revenue Act of 1936 may make them popular. Regulations of the Board of Governors of the Federal Reserve System in this connection are now in the process of completion. It is believed that operation of such funds in accordance with regulations of the Federal Reserve Board will insure protection for trust funds invested therein until such time as adequate Pennsylvania legislation is enacted."

MAIN POINTS SUMMARIZED

MR. BERGER summarizes as follows the essential features of the legislation relating to mortgage investment funds:

"The essential theory is that the establishment, maintenance, operation and liquidation of mortgage investment funds shall be governed by the same general principles which apply in the case of mutual savings banks. The Act contemplates that funds of trust estates may be invested in the fund, and shall receive a proportionate share of the income of the fund during the period the funds remain so invested. Upon the termination of the trust estate, or the withdrawal of the investment of any trust estate from the fund for any other reason, the trust estate is repaid in cash the amount of its investment in the fund, together with its proportionate share of the income to the date of withdrawal, in the same manner that a depositor in a mutual savings bank receives interest on his deposits from time to time and upon withdrawal is paid in cash the amount of his deposit and interest to the date of withdrawal."

SCULPTURED DETAIL FROM BARRE MEMORIAL

Denial of Personal Exemption to Trusts

IN the Revenue Act of 1937, passed near the end of the last session of Congress, "Title IV—Trusts" reads as follows:

SEC. 401. DENIAL OF PERSONAL EXEMPTION TO TRUSTS.

Section 163 (a) of the Revenue Act of 1936 is amended to read as follows:

"(a) CREDITS OF ESTATE OR TRUST—

"(1) For the purpose of the normal tax and the surtax an estate or trust shall be allowed the same personal exemption as is allowed to a single person under section 25 (b) (1), except that no exemption shall be allowed a trust if the trust instrument requires or permits the accumulation of any portion of the income of the trust and there is not distributed an amount equal to the net income. For the purposes of this paragraph the term "net income" does not include amounts included in gross income which, under the law of the jurisdiction under which the trust is administered, cannot (even if permitted or required by the trust instrument to be considered as income) be considered as income and are not distributable.

"(2) If no part of the income of the estate or trust is included in computing the net income of any legatee, heir, or beneficiary, then the estate or trust shall be allowed the same credits against net income for interest as are allowed by section 25 (a).

SEC. 402. FIDUCIARY RETURNS.

Section 142 (a) of the Revenue Act of 1936 is amended to read as follows:

"(a) REQUIREMENT OF RETURN.—Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this title and such other information for the purpose of carrying out the provisions of this title as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual having a net income for the taxable year of $1,000 or over, if single, or if married and not living with husband or wife;

"(2) Every individual having a net income for the taxable year of $2,500 or over, if married and living with husband or wife;

"(3) Every individual having a gross income for the taxable year of $5,000 or over, regardless of the amount of his net income;

"(4) (A) Every estate, and every trust entitled to the personal exemption allowed by section 163 (a) (1), the net income of which for the taxable year is $1,000 or over.

"(B) Every trust, not entitled to a personal exemption under section 163 (a) (1), which has a net income for the taxable year.

"(5) Every estate or trust the gross income of which for the taxable year is $5,000 or over, regardless of the amount of the net income;

"(6) Every estate or trust of which any beneficiary is a nonresident alien; and

"(7) Regardless of the amount of the gross or net income, every trust, though having no net income, which would have a net income if distributions had not been made which under the terms of the trust instrument were in the discretion of the trustee or conditioned upon a contingency; but subject to such conditions, limitations, and exceptions and under such regulations as may be prescribed by the Commissioner, with the approval of the Secretary, a fiduciary required by this paragraph to file a return may be exempted from the requirement of filing such return."

SEC. 403. EFFECTIVE DATES.

The amendments made by this title shall apply only with respect to taxable years beginning after December 31, 1936.

Why Some Ads Go Plop!

NO banker or, for that matter, no business man can put in a single advertisement and reasonably expect to take out a handsome piece of business. That happens only rarely—much less often than one might expect to hit the "jack pot" of a slot machine.

Advertisers are not rewarded *for* their advertising but *by* it. It's not the act of advertising that brings business; it's what you say, how you say it and how often, that results in sales.

Hit and miss or opportunist advertising may be all right for the sale of products that have a price or style appeal. But for the sale of a highly intangible and personal service, like banking, continuous advertising is essential.

Things are happening in the minds and buying habits of customers and depositors that must be taken into account by all who have products and services to sell. Things are also happening in the minds of employees that must be engaging the attention of all who hire people. There has been an immense change in corporation thinking and the evolution is far from finished. There is a growing awareness that depositors and non-depositors are people and that they are moved by emotions such as politicians can stir, rather than by pure logic and cold fact such as statesmen and business men have been accustomed to use.

A NEW TREND?

THE bank advertising man who has only a smattering of banking knowledge, and can only cleverly arrange some glittering generalities by the use of a few well chosen words and an interjection of banking jargon, is at a disadvantage. It would not surprise me if in the future more bank advertising men were recruited from the ranks of young, ambitious and experienced bankers, with imagination and a background of psychology, than from among men brought in from the outside, notably from newspapers, advertising agencies and elsewhere.

Financial advertising today and always must answer the unspoken question in the mind of every reader—"What can your bank do for *me?*" Far-fetched art work, exaggerated copy, absence of real knowledge about the needs of the prospective user of bank service, are gone—at least until the next feverish wave of prosperity lures the

financial advertiser into the easy-come, easy-go attitude toward his advertising program.

What has been the effect of the economic re-alignment brought about by the depression and by the New Deal? Has the governmental paternalism banished the old-fashioned urge to thrift? Has the absence of thrift advertising in recent years been an obstacle to the encouragement of thrift? Certainly there has been a great deal less savings advertising in the last few years, largely due to the bankers' operating problem connected with the finding of safe channels of investment for such deposited funds.

With labor receiving an increasingly larger proportion of industry's earnings, will this group become more profitable users of a bank's services, in savings and other departments? Will they take up the slack of the wealthier whose incomes have been reduced by taxation, lower income yields on investments and other restrictive factors?

THE NEW COPY APPEAL

IF it is true that the banking business has changed from one of lending to one of investing, what copy cue does this provide the bank advertiser?

The wealthier class has been reduced in number and most of the medium income class are severely reduced in income. Producers of luxuries which these two classes supported face a very different outlook and as a result may become less profitable prospects for bank services.

We in the banks must teach a new higher-income class how to save money, how to invest it, and how to trustee it.

FIRST, CONTINUITY

ALL of these new groups of potential users of bank services constitute a parade which must be reached by an endless "moving picture" of advertising, telling the story of the personal usefulness of financial facilities. It cannot be told by a single stereopticon-flash on the screen. Part of the procession will miss it unless the story is continuous.

In view of these considerations, there seems to be a need for a return to the long-pull advertising perspective which in my opinion should always govern financial advertising.

Usefulness over the years is the major product of the sturdy financial institution. That story as applied to the various strata of the public must be told and re-told constantly, interestingly, in order to promote a bank's growth, keep its staff alert and protect banking from attacks.

I. I. SPERLING

REDUCES NOISE and DIRT

with

Carrier
Air Conditioning

Fidelity Trust Company, Baltimore, Md., Finds New System Ends Summer Discomforts

① **WHAT A CHANGE!** Summer used to mean hot, muggy days, heat and distracting noise for the employees and customers of the Fidelity Trust. But no longer! Since the Carrier System was installed, it's always comfortable—cool, invigorating. And the closed windows shut out noise and dirt from the street outside.

② **BEHIND THE SCENES**—Year 'round Carrier Air Conditioning permits uninterrupted concentration on exacting work. And because the humidity is always controlled, there's less absence due to illness. Less dust, too, to clog the delicate mechanisms of office equipment.

③ **CLIP! CLIP!** Although the Customer's Coupon Room is located over the boiler room, and was formerly hot, stuffy and uncomfortable—customers now find it a cool, delightful retreat. And of course it's quiet—and free from dust and dirt.

④ **THE SAVING ACCOUNT** — Figure it out—the Fidelity Trust Company saves all the way around, with Carrier Air Conditioning. Saves in cleaning and redecorating. Saves in greater efficiency. Saves in protecting the good-will of patrons.

Carrier Air Conditioning— an Investment the year around

YOU know what Carrier Air Conditioning does for business during the hot weather—how it improves the good will of customers—improves the efficiency of employees—reduces the cost of cleaning and redecorating. But how about Carrier Air Conditioning for year 'round use? Does it pay?

Records prove that it does. For one thing, Carrier Air Conditioning provides the modern, economical way of heating. Again, because it adds healthful humidity to the air, Carrier Air Conditioning improves health, reduces absence due to illness. A good example is the Northern Trust Company, Chicago, where employee absence was reduced 50% after the Carrier System was installed. And because your Carrier System provides the same gentle, positive circulation of clean air throughout the cold months as it does throughout the hot months, your cleaning costs are definitely lower.

Records, too, show that year 'round air conditioned space is renting faster—that shoppers are turning more and more to stores, hotels and restaurants that offer Carrier year 'round Air Conditioning. In the home field, winter air conditioning is considered even more important than summer air conditioning.

Your local Carrier representative will give you complete information about Carrier Year 'round Air Conditioning—and you'll be surprised to learn how reasonably you can enjoy the same system used in such banks as the Dime Savings Bank, Brooklyn; the Whitney National Bank, New York; the Citizen's National in San Bernardino, Cal., to say nothing of buildings like Radio City and the U. S. Capitol. No obligation, of course.

CARRIER CORPORATION, Desk 836, Syracuse, N. Y.
Without obligation, send me complete information on Carrier Air Conditioning for ☐ Banks; ☐ Stores; ☐ Residences.
Name..
Bank..
City..
Address...

This Month's Authors

GEORGE E. ANDERSON (Bank Real Estate Auctions, p. 14), a Washington commentator, is particularly familiar with banking and business problems.

JAMES R. TROWBRIDGE (Pay as You Bond, p. 20) is president of the Franklin Savings Bank in New York City.

EDWARD N. HAY (The Yield on Sound Personnel, p. 22), familiar with engineering, investment banking, security and credit analysis, and costs and management, since 1934 has been personnel officer of the Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia.

CHRISTIAN DJÖRUP, C.P.A. (How to Use Trust Receipts Now, p. 23) is a New York consulting accountant associated with Lawrence Scudder & Company. He is an authority on foreign exchange and accounting.

EDWARD H. COLLINS (Where to Dig Investment Facts, p. 24) has had wide experience in writing about financial subjects. He is associate financial editor of the New York *Herald Tribune*.

CHARLES H. MYLANDER (When Is a Loss?, p. 26), vice-president of The Huntington National Bank, Columbus, Ohio, is also Chairman of the Committee on Taxation, A.B.A.

E. S. WOOLLEY (Why Bank Costs Vary, p. 28), an expert on bank analysis and management matters, makes his headquarters in New York City.

F. BRADSHAW MAKIN (England's Even Keel, p. 29) recently has had several informative articles in Banking. He is a fellow of the Royal Economic Society.

THOMAS C. BOUSHALL (A Good Word for Instalment Buying, p. 30) is president of the Morris Plan Bank, Richmond, Virginia.

C. M. SHORT (A Fine Crop of Wheat Problems, p. 31) is assistant secretary, Canadian Bank of Commerce, Toronto.

CLAUDE L. STOUT (A Bank's Peanuts and Potatoes, p. 32) is executive vice-president and cashier, Poudre Valley National Bank, Fort Collina, Colo.

DUNLAP C. CLARK (Personalized Checks, p. 72) is president, American National Bank of Kalamazoo.

MARION C. MANLEY (Answers to Everyday Questions, p. 78) is business branch librarian of the Newark, New Jersey, Public Library.

J. F. CORNELIUS (Marketing Credit, p. 86) has charge of advertising for the First National Bank of Spokane.

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of BANKING, is now available to subscribers on request.

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BANKING'S Advertisers, September 1937

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BANKING'S DIGEST—SEPTEMBER 1937

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Trust Prospecting Nearby

IN our institution of some 35,000 banking department customers, having on deposit with us slightly less than $40,000,000, we confine 90 per cent of trust development work to prospects who are already customers of the bank. In our initial survey we discovered a gold mine under our own roof, so with these facts as an observation instrument we located our target.

With our sights set high we proceeded to compile data for a trust department prospect list. Quality and not quantity was our guiding principle, with the knowledge that a list can be expanded much easier than thinned out, and that names must be added as well as deleted from day to day.

We knew it would take several months to prepare an adequate list and the cost would not be small; therefore an important task should be done well to produce lasting results. Instead of a list of names and addresses without any data to reflect why the prospect should be followed for new business, we preserved our detail and recorded it on individual history cards and perfected a routine method for the maintenance of our list. Our original list was compiled of individuals doing business with us as follows:

1. Commercial accounts above $10,000 and savings in excess of $5,000.
2. Safe deposit and storage vault customers paying $5 per annum or more.
3. Customers having wills and life insurance trusts.
4. Certain valued trust department customers such as beneficiaries and remaindermen under existing trusts.
5. Stockholders of our bank residing within our so-called trade area owning five shares or more.
6. Tenants of our building.
7. Officers and directors.
8. Names submitted by directors, officers and department heads.

We figured it would be a waste of money to get a cross section view of our prospective customers unless we maintained the prospect cards in a current condition; therefore the following program was adopted as a means of maintaining the list.

The banking department new account sheet is checked daily to ascertain the names of new customers opening accounts in excess of the limits mentioned, and to record large accounts closed.

The same system is employed for maintaining the safe deposit tenant list in a current condition.

When a new will is filed, or if one is withdrawn, our prospect cards are posted accordingly. The same procedure has been adopted in keeping the life insurance list up to date.

Once each year the trust department's customer list is brought up to date.

In addition we change our records when actual transfer of our own stock is made.

We keep ourselves posted as to changes of tenants in our building.

In January and July we approach our officers and directors to reconsider what additional business they might influence in our favor.

Each day we check the published list of vital statistics in the local newspapers to ascertain whether any of the customers of our bank have passed away leaving estates for administration. When a trust prospect dies his card is pulled immediately, all the information thereon is verified and the card is not filed away as closed until we are satisfied there is no business available. When the newspaper reports the demise of someone having a sizeable estate, even though the name does not appear upon our prospect list, consideration is given to a proper means of approaching members of the family or anyone else who may have been familiar with the decedent's affairs.—DON R. CAMERON, Trust Officer, Union Bank & Trust Company of Los Angeles, before the ANNUAL TRUST CONFERENCE of the PACIFIC COAST AND ROCKY MOUNTAIN STATES.

Bank Directors Have Jobs

THERE are many legal principles which have arisen chiefly in litigation by receivers, but which are nevertheless more important and more keenly interesting to the directors of going banks at the present time.

When one is elected and qualified as a member of the board of directors of a national bank, no matter how large or how small the bank, there is immediately imposed upon him both by the common law and by the National Banking Act a keen responsibility in the management and affairs of the bank. If the director fails or neglects to perform these duties imposed upon him he becomes, together with the other directors involved in the failure of duty, both severally and jointly liable for the losses sustained by the bank due to such action. He may be sued by a stockholder if the bank is a going bank, or by a stockholder or creditor if the bank is an insolvent bank. The proper performance, therefore, of the duties of a director affect both his moral and financial responsibility. The fact that within the space of approximately one year the office of the Comptroller of the Currency has compromised and settled, by amicable adjustment, claims against former directors of insolvent banks in excess of $10,000,000, demonstrates the financial importance of such suits to directors.

In many cases, perhaps in the vast majority of cases, this neglect of duty by the directors was neither fraudulent nor dishonest, but resulted primarily from the infringement of a prohibition in the national banking law against the doing of the particular act. For instance, regardless of whether a loan was made to a debtor with ample financial responsibility, if the amount of the loan exceeds 10 per cent of the unimpaired capital and surplus, the director participating in the loan or ratifying it with either actual knowledge or constructive knowledge, is held liable not only for the excess over the 10 per cent but for the entire amount of the loss upon the loan.

Time will not permit me to go into detail as to the varying degrees of liability where a loan has been made within the legal limitations and later increased above the legal limitations. However, the addition to the loan causing it to be in excess of the amount is recoverable from the director in the full amount of the addition and not only in the amount of the excess portion.

Many items which have been found recoverable against directors are items or acts which are intrinsically *ultra vires* of a bank, particularly where a bank has entered into and operated some business not properly incidental to the banking business, and therefore *ultra vires* of its charter. For such *ultra vires* acts and operations the directors are liable for all losses sustained. A very common cause of liability of a director is in the declaration of a dividend when the bank's unimpaired surplus and capital did not permit of its payment under the National Banking Act. In short, a director's liability under statute arises if he knowingly violates, or knowingly permits any of the officers, agents or servants of the banking association to violate, any of the provisions as outlined in Title 12, Section 93, U. S. C. A.

The liability of a director of a national bank under common law is not eliminated by the enactment of the specific provisions of the national banking law. In short, the common law liability of a director arises from any act, or omission of the performance of an act, which ordinary care would require under the circumstances. This often involves the duty of the director to inquire, and his lack of knowledge does not excuse him if he has not satisfied the standard of ordinary care to inquire into matters concerning which he should have had knowledge for the proper management of the bank.

Although it has been the policy of the comptroller's office to adjust amicably all claims against directors, where it was possible to do so with fairness to the depositors and with due regard to the financial responsibility or lack of financial responsibility of the director, and although, as pointed out heretofore, these settlements have amounted to payments to receivers by directors of more than $10,000,000 in one year, it was nevertheless necessary to institute suit in many cases. There are now pending many such suits involving amounts from $10,000 to as high as $7,000,000. Probably the most notable litigation upon the subject of directors' liability is in the case of Atherton, et al. v. Anderson, Receiver (86 Fed. (2d) 518), which arose in the National Bank of Kentucky at Louisville. This suit involved items of both common law liability and statutory liability. It involved the alleged *ultra vires* operation of a business not incident to the banking business. It involved items of alleged gross negligence, of dividend, and of excess loans. In fact, items ran the gamut of practically all types of non-criminal civil liability. The United States District Court found a judgment against the directors, individually and jointly, in amounts varying from a few thousand dollars to a total in excess of $5,000,000. Two petitions for rehearing were had, and an appeal was taken to the Circuit Court of Appeals at Cincinnati. This court reversed the lower court on many items of liability and reduced the judgment to a comparatively small amount. The receiver of the national bank and the office of the Comptroller of the Currency petitioned the Supreme Court of the United States to accept the case upon certiorari and that Court has just recently granted the certiorari and accepted the case as being one meriting their consideration. Whether or not the Supreme Court of the United States will reverse or affirm the findings of the District Court is, or course, not the subject of proper comment here. The Supreme Court, as distinguished from lower Federal courts, has not had occasion to review the question of directors' liability for 20 years.

Some cases which probably should be read by every director before entering upon his duties as such are Corsicana National Bank v. Johnston (251 U. S. 68); Gamble v. Brown (29 Fed. (2d) 366); Bates v. Dresser (251 U. S. 524); McRoberts v. Spaulding (32 Fed. (2d)); First National Bank v. National Exchange Bank (92 U. S. 122); Bowerman v. Hamner (250 U. S. 504); and Briggs v. Spaulding (131 U. S. 132).—J. F. T. O'CONNOR, Comptroller of the Currency, before the OREGON BANKERS ASSOCIATION.

Now That Inflation's Here

IT happens that once again we have inflation with us. Obviously, it is of the Government-forced variety, and the increased purchasing power in circulation which it has produced has come from the credits to the Treasury's checking account, which in turn have resulted from the commercial bank purchases of Government bonds. These credits have been forced out into the channels of business in the course of the spending spree. Not all the effects have been seen as yet, and the process is still underway. Always there is a lag of months, and sometimes years, following a Government-forced inflation such as that now in progress. No man can say when its effects will become more evident, nor do we know today how far it will eventually go.

Although there is so much uncertainty about the future of the present inflation, there are some aspects of that future which are clear enough at this time. In the first place, it will not be possible for you to conduct hedging operations, as the German banks did, thereby preserving your capital and surplus in other nations of the world. The United States is far too large a territory and its banks involve too much of the world's capital, so that such operations will be out of the question.

It is certain that those directly at fault will not voluntarily accept the blame for the situation. You surely do not expect politicians to tell the country that their policies were mistaken. Recently a news item announced that Washington was closely watching some of the New York bankers in the endeavor to fix responsibility for the recent large sales of Government bonds. Surely, it is obvious that whatever happens, you will be expected to shoulder the blame.

I shall not insult your intelligence by suggesting that you may safely ignore the situation. The record of every such period in history plainly shows that only the most farsighted and earnest efforts can possibly avoid disaster.

What can the bankers do? It seems obvious to me that the bankers must seek to broaden their knowledge of the entire situation, and in particular their understanding of scientific banking methods. Then, obviously, you must help to inform

the public. Once again it is necessary to learn the lessons which sharpest adversity has taught other nations at other times and places, and you have good reason for the most earnest and continuous efforts along these lines. I do not think it an exaggeration to say that you will be fighting to preserve yourselves and your institutions. Inflation is a condition such that the bankers cannot liquidate their assets, and the invariable rule has been that, when the bankers cannot liquidate their assets, the public liquidates the bankers. It will perhaps be as well to keep in mind that, in these modern days of the totalitarian states, the word "liquidate" has taken on a new and sinister meaning.—E. C. HARWOOD, American Institute for Economic Research, before the CALIFORNIA BANKERS ASSOCIATION.

The Value of a Dollar

BUSINESS men in this country have been very meticulous to supply themselves with cash registers and bookkeeping machines, to make sure that the *number* of dollars due them is properly accounted for. Apparently, however, they have given little attention to protecting the *value* of those dollars, in relation to the goods and services for which they may be exchanged.

It is of course true that until recently the dollar has been held consistently equivalent to a definite amount of gold, and I have no doubt that the purpose behind that policy was to preserve a certain degree of stable value for the dollar. For many years, in the past, gold coin itself had been the chief source of money in important commercial countries, and this gold money was found more stable than other moneys. It could not be counterfeited, nor expanded readily in quantity by politician or financier, and being a rare metal of limited supply, it had a nearly stable relationship to the actual volume of commerce and trade. The real element of this stability, however, was not the beauty of gold, nor its general utility, but simply that its limited supply preserved substantial constancy between the amount of gold coin and the amount of transactions needing the service of money.

We have, to some extent, preserved the privilege of exchanging our paper or bank money for gold, but at the same time, the Reserve System largely destroys the quantity stability of money, which was the major element in giving gold coin a stable commercial value. Even today, after the rise in bank reserves, it is still legally permissible to erect nearly $15 of demand deposits on each dollar in new gold! A more perfect coordination than ever existed in the gold coin regime, between the volume of money and the volume of economic activity, can easily be established. But let us not delude ourselves with the idea that we enjoy the benefits of a real gold standard. We have kept the *illusion* of such a standard. But excessive elasticity in means of payment has nullified the *realities* behind it.

Some bankers have been brought up on the idea that depressions antedating the Federal Reserve System were caused by the rigidity of the banking structure. The Federal Reserve Act came as a reaction from that rigidity, but provided the wrong kind of elasticity. You will find, in the records of those earlier days, many banks that failed, though otherwise solvent, because rigidity in the actual supply of currency made it impossible to satisfy the demands of existing depositors. You will not, however, find any of those banks that failed because limits were imposed by law on the volume of deposits they might hold, in relation to their reserves. The defect, therefore, consisted in a lack of elasticity in the currency supply, but not in a lack of elasticity in the volume of permissible deposits.

Without asserting that absolute constancy in the purchasing power of money would result from stability in the volume of currency and demand deposits, I think it unquestionably true that much constancy in volume is essential to any reasonable protection of the purchasing power of our dollar. Elasticity should be provided in the volume of currency, because currency should be permitted to expand when deposits are being withdrawn. Stability in the quantity of means of payment is possible only if a compensatory expansion in currency is permitted at such times. With regard to the aggregate volume of means of payment, however, the only elasticity consistent with a stable purchasing power is a sufficient elasticity to keep the volume of means of payment in equilibrium with the growth of population and of economic activities. Stable equilibrium of this kind is an essential element in preserving a reasonably stable purchasing power for the dollar.—JOSEPH E. GOODBAR, President, Society for Stability in Money and Banking, Inc., before the IOWA BANKERS ASSOCIATION.

Sound Investments in Personnel

OUR bank, its officers and staff have found the following policies to be mutually satisfactory and we expect to continue them.

When we have a bright young officer, and wish him to broaden his point of view and add to his knowledge, we send him to the Graduate School of Banking at Rutgers.

When any members of our staff express a desire to become stockholders in our bank, we place the facilities for doing so at their disposal. This has a splendid moral effect.

We help them get out of debt and to keep out of debt. We find one of the best ways to do this is to ask for their financial statements.

We take care of their health by prevention in preference to cure.

If any officer or member of the staff wishes to broaden himself by travel or study, the bank will give its full cooperation.

We do not consider that this is being benevolent. It is just plain good business and foresight.—F. I. RAYMOND, Vice-president, Wells Fargo Bank & Union Trust Company, San Francisco, before the UTAH BANKERS ASSOCIATION.

Stage-Managing Business

THE Government will undertake to determine many things formerly left to the play of natural economic forces and the normal adjustments effected by the private decisions of millions of men trying to use their best judgment.

The Government will try to force a distribution of national income so that no one group has too large a share of the total. Major devices for this purpose will be taxation, labor policy, and farm benefits.

By taxation, corporations will be prodded to pay out all earnings so that surpluses will not accumulate for the account of wealthy shareholders, and so that extra income will be put into the hands of the masses who are expected to spend it for goods and services. Also by taxation, old-age pensions will be provided, conceived as a factor making for stabilization. Taxes will be used to break up holding companies, to combat super-bigness in business, and to make it extremely hard for individuals to acquire huge fortunes. In fact there is hardly a phase of national economic planning in which taxes will not play an important part.

The labor policy is not just a political move to curry favor with the unions. It is regarded as a powerful weapon to force employers to give employees a larger share of the business dollar. Thus it fits into the plan for skimming extra income from the top third of the population and giving it to the bottom third.

The farm program, although colored strongly with political motives, is seriously calculated to achieve and maintain a better balance between the purchasing power of the farming population and the non-farming groups. Here also the top third is forced to aid the bottom third.

The Government will attempt to formulate credit and banking policy to say how high or low interest rates should be. This means further strengthening of the Federal Reserve System as an arm of the Government, and a drive for unification of the banking system, to bring all banks under one central Federal regulatory agency.

These points suggest the aims and scope of the Administration's dream of stage-managing the nation's business. Four years of experimentation have convinced many that it is too big a job. But the Government at Washington has not come to this conclusion. It has discovered weaknesses, failures, and great obstacles. But the enthusiasm endures, and instead of backing up, the purpose now is to push ahead with new devices, new instruments of power and control.

This explains partly the demand for revamping of the courts, for strengthening the White House control over all Government agencies, for various new controls over industry, labor and agriculture.

Regardless of what may happen in 1940 you can be sure that many major changes of the past four years will endure.

Old-age pensions will be with us from now on.

The full and free gold standard probably is gone forever.

Managed currency, Government-controlled credit policies, will continue in some form.

Unionization of labor will become universal, with increased political power for labor unions.

Federal power will continue to grow.

With the great increase in social functions of government a high level of taxes will be required. The tax rates of 1929 will not be enjoyed again in our generation.—FREDERICK SHELTON, Counsel, Kiplinger Washington Agency, before the GRADUATE SCHOOL OF BANKING.

An Adventure in Small Loans

THERE are three features of our bank's small loan practice that are somewhat unique and may, therefore, be of some general interest: First, we call all of these loans by a new and descriptive name—income advances. Second, we make separate charges for interest, service, and risk. Third, we make a type of loan that other banks do not make—a wholly unsecured loan without co-makers or endorsers.

The term "income advance" is applied to all these loans because it appears to be more accurately descriptive than the names ordinarily used, and places the emphasis where it belongs. It is the expectation of the borrower and the bank that his advance will be paid from the borrower's current income. The bank may have background security in a chattel mortgage on a car, or in the signatures of co-makers or endorsers, but the bank does not wish to take men's automobiles away from them, nor does it desire to become the owner of automobiles; least of all does it wish to collect the borrower's note from his co-makers or endorsers. The bank, therefore, makes a loan only to a borrower whose reasonably certain income appears to be sufficient to insure his ability to make his monthly payments comfortably.

Everybody thinks he has good character, and if a bank undertakes to make character loans everybody thinks he is entitled to borrow, and if his application is declined he feels that his character has been attacked. When, on the other hand, a bank undertakes to make income advances, persons without adequate incomes seldom apply, and when they do apply it is comparatively easy for a tactful loan officer to show them, without offense, why they are not eligible. The use of this accurately descriptive term places the emphasis correctly, and helps the public to understand the nature of the transaction.

One of the most ticklish problems involved in the making of loans or advances in small amounts to be repaid in monthly instalments is that of fixing charges that are fair to all borrowers, provide the bank with adequate compensation for operating this very expensive type of loan service, and do not appear to the public to be excessive. Most banks seek to secure adequate compensation by charging a rate of interest that is two or three times as high as they charge upon their ordinary commercial loans. This plan has the virtue of simplicity, but is grossly inequitable as between borrowers of larger and smaller sums, and is likely to result in a so-called interest rate that appears high to the public.

It is our practice to charge a uniform bare interest rate on all types of instalment advances, and a service charge to cover the cost of making and servicing the advances and, in the case of unsecured advances without co-makers, a risk premium to provide for inevitable losses. Our present interest charge on all these types of instalment advances is 3 per cent per annum computed upon the net amount received by the borrower for the entire period over which the payments are spread. If the borrower receives $200 to be repaid in 12 equal monthly payments our present interest charge is $6, or approximately 6 per cent on the net reducing balances. This charge will vary with the fluctuations in prevailing interest rates. The borrower, if he does not carry a checking account with the bank, also pays a flat service fee of $5 without regard to the size of the advance. Of this fee, $3 is designed to cover the cost of determining the borrower's credit worthiness, negotiating the loan, and putting it on the bank's books. The remaining $2 is designed to cover the cost of collecting the 12 monthly payments and the bookkeeping involved therein, at the rate of 16⅔ cents a payment. This makes the total charge for a $200 secured advance or co-maker advance payable in 12 monthly payments, $11 if made to a borrower who does not carry a checking account with the bank, or $6 if made to one of our own checking account customers.

Our most important departure from the practice of the past is in making income advances to persons who pledge no security and provide no co-makers or endorsers except, of course, the spouse. For determining the eligibility of applicants for these unsecured income advances, we have developed rather definite criteria, and a graduated scale of risk premiums based upon the apparent risk characteristics of the advances. To be rated as a preferred risk a borrower must meet the following five requirements:

1. He must have an income of at least $1,000 a year if unmarried, and at least $1,200 a year if married, with at least $100 a year in addition for each dependent child or parent.
2. The applicant's present employment must be of a dependable nature, and must have continued over a period of at least 12 months.
3. His past paying record must show at least as many instances of prompt payment as of slow payment, and his record must reveal no behavior that is worse than slow.
4. All of the applicant's current obligations payable within the year, including the advance sought, but not including ordinary monthly payments on a home, must not exceed 20 per cent of the borrower's annual income.
5. The applicant must not be obligated on any other person's debt.

These criteria, of course, are not to be applied blindly and arbitrarily.

If the applicant, who is otherwise eligible, meets these five standard requirements he is regarded as a preferred risk, and is required to pay into a life insurance and loss reserve fund a risk premium equal to 2 per cent of the amount of his advance. Out of the fund so created we pay a life insurance company the premium covering insurance on the life of each borrower to the full extent of his indebtedness to the bank, and the remainder of the fund is available to absorb such occasional losses as arise from causes other than death.

If the applicant is able to meet only four of the five standard requirements we may still make the advance, and in that event his risk premium is 3 per cent instead of 2 per cent. He may even fail to meet two of these requirements and still get his advance, in which case he will be required to pay 4 per cent or possibly 5 per cent as a risk premium.

Here we are seeking to avail ourselves of the example set by the life insurance companies which have demonstrated that a sound business may be built even in underwriting risks that are practically certain to materialize into losses. They have found that it is only a matter of securing a premium that is adequate to the risk. It would appear that it is theoretically possible for banks to make loans involving a very high degree of risk if each bank has a sufficient volume of business to provide a proper averaging of risks, and if the bank collects risk premiums that are adequate to cover the risk underwritten. There is, of course, the practical difficulty of correctly classifying the loans in groups of similar risk characteristics, and of assigning to each group adequate risk premiums. Our experience is so limited, and our technique so crude that it cannot be said to prove anything, but constitutes only a suggestion of what may possibly be done.

Our unsecured income advances are limited to 10 per cent of annual incomes up to $2,000, 12½ per cent of annual incomes between $2,000 and $3,000, 15 per cent of annual incomes between $3,000 and $4,000, 17½ per cent of annual incomes between $4,000 and $5,000, and 20 per cent of annual incomes above $5,000. This schedule is built upon the theory that borrowers with the larger incomes can comfortably spare larger portions of their annual incomes for the payment of advances.—RALPH W. MANUEL, President, The Marquette National Bank, Minneapolis, before the WISCONSIN BANKERS ASSOCIATION.

Complex Trust Accounting

TRUST accounting is becoming more and more of a problem. Many of our accounting difficulties are local, but there are some that apply generally. One of these is the matter of allocating income and principal.

Many private trusts contain a provision authorizing the trustee to determine what is income and what is principal, and if reasonable discrimination is used the trustee should keep out of trouble. Most testamentary trusts, however, do not have this provision. The form of investments in many instances is the source of this problem.

Take the case of investment trust certificates, which have periodical distributions. Many of these distributions include a partial return of principal, and the managers or trustees of these trusts are unable to tell you definitely what the distribution covers. Where the trust permits, it might be well in such circumstances to get a partial revocation with each distribution to your trustor covering the contingency of a part of such distribution later being determined to be principal.

Another matter in accounting is the advisability of sending regular statements to trustors and beneficiaries. This will give the trustors or beneficiaries an opportunity to object to investments or management, or be barred from doing so later. Statements will also help us keep in closer touch with our trustors.—E. H. BOOTH, JR., Assistant Trust Officer, Title and Insurance Trust Company, Los Angeles, before the ANNUAL TRUST CONFERENCE of the PACIFIC COAST AND ROCKY MOUNTAIN STATES.

Hints on Time Financing

CERTAIN factors should be considered by a bank before entering the field of instalment payment financing.

A careful review should be made to determine territorial limitations, and the potential volume available in the area. The area to be considered must only include that section which can profitably be served. Sparsely settled districts are costly to service.

In considering net volume, thought should be given to competition of other finance companies, both independent and national. Consideration should likewise be given to the amount of money available for use by the bank in instalment payment financing. It must be remembered that instalment financing is a volume business, and only through volume and a trained personnel can a safe, successful business be enjoyed.

The business is highly specialized and a trained finance man and trained personnel are essential, or operations are likely to be costly before sufficient experience is gained.

While the factors which determine whether credit will be extended seem to differ from regular commercial loaning practices, the same fundamentals, or three C's, of credit still apply, with perhaps greater emphasis on character, for remember that the collateral is not in your possession, and the security to your loan is only as good as the market value of the collateral, when and if it comes into your possession.

During the past few years, there has been an increasing tendency toward smaller down payments, longer terms, and reduced monthly payments. This was the natural result of an effort to induce sales during the lean years. A man employed during those years had reason to suppose that any change in his ability to pay would reflect an improvement as conditions improved. Consequently, the extension of terms has not resulted unfavorably to date, but consideration should be given to the possible results of lenient extension of credit during the good period, based on favorable factors which would not carry on through a depression. You should keep in mind that the purchaser's equity is considerably less on long term paper, and plays a vital part.

A careful selection of dealers and a rigid credit policy will ultimately result in a more favorable net profit than will a multiplied volume of poorly selected risks.

The department should be separately organized, but instilled with the same spirit of fair dealing required to reflect truly the dignity and standing of the bank in the community which it serves.—GEORGE D. GRIMM, Auditor, The National Shawmut Bank of Boston, before the MID-CONTINENT CONFERENCE OF BANK AUDITORS AND COMPTROLLERS.

Being a Good Employer

GENERALLY speaking, there are three kinds of supervisors. One is the military type. The people under him are "scared to death" of the boss. He issues orders with little or no explanation and commands their execution. Then there is the foreman type who strong-arms his way along and is concerned only in getting the job done. He believes that for each one man who cannot do his share of the work there always is another one waiting to take his place who can. The third is the leader type—the ideal type both from the standpoint of dollar-and-cents management and from the standpoint of the fact that employees all are human beings. This leader type is the man who realizes he is not going to do the job alone but that he must have the full cooperation of all of the employees and that he is working in partnership with them. This type of supervisor understands how to get cooperation and team work.

To get the job well done, a major task of personnel administration is to analyze and correct the types of supervision being exercised. If for no other reason than the analysis of the problems of supervision, I believe personnel administration is justified from a standpoint of efficiency in management.

Good supervisors are a primary requisite to efficient operation. If this is true, then the greatest problem of personnel management is the selection of good supervisors. One has to learn a job before one can boss it and so, then, the problem, with few specialized exceptions, boils itself down to the initial selection and training of new employees. In brief, this is the basic problem of personnel administration. This is a pretty big job, yet it is only half the job. The other half has to do with the equally basic problem of the job satisfaction and physical well-being of the employees themselves; and let me say that this last half of the job pays just as big dividends as does the first.

I do not believe financial incentives compare for a moment with many non-financial incentives that can be made use of by the proper type of supervision in management. I am not talking about such welfare activities as fellowship clubs, etc., but rather about serious matters of approach to the day-to-day job.

First, the job of a good supervisor in the use of non-financial incentives is to give to all employees a clear vision of the objectives of the group. In other words, the leader type of supervisor is charged with setting a clear goal. Second, it is important that each employee be made to understand what his part is in the group job. In instances where several groups of employees are engaged in doing the same job there is the added responsibility of making clear just what part of the job is to be done by each group or work unit. After the mechanics of the definition of the goal have been established, not only for each individual but for each work unit of individuals, there comes the most important responsibility of setting a standard of measurement of accomplishment, first, for the individual, second, for the work unit, and third, for the entire group of employees engaged in the job.

A variety of systems can be set up for measuring accomplishments but it is important that whatever this standard of measurement be, it be understood by all. In other words, the standard of measurement should be such as to make apparent at all times the comparative progress being made by the various employees and work units towards getting the job done. This is not a speed-up program but, rather, a

simple utilization of the fundamental human trait of friendly competition. It helps make a game out of the job and that is one way of making the job enjoyable. Since we spend more time on our job than at any other one thing, it seems to me that every effort should be made to make us enjoy our jobs. That is a major reason why non-financial incentives are important.

If I were asked to make solely one practical suggestion to management, I believe it would be to recommend the establishment of a planning committee in any organization of any size at all. On that committee I would place an officer of management, an officer of procedure, probably the comptroller or chief accountant, and the personnel officer. If the business could afford it, the committee should be given an employee of its own—a planning specialist, or a staff of specialists. The suggestion is not entirely novel. Nevertheless, the point I wish to emphasize is that the personnel officer has a function of importance in the final determination of all procedures.

Management always should strive to be a good employer insofar as working conditions are concerned. I believe this principle is fairly well accepted today in American business. There is not much argument about the desirability and dollar-and-cents value of good air, adequate lighting, etc. I believe business recognizes physical fatigue is a liability and that every effort should be made to minimize it.

Too often not enough attention is given to emotional fatigue. Here, again, is a real job for personnel administration—the elimination of emotional fatigue. There are various means by which emotional fatigue may be minimized. One is the honest effort of management to create institutional good will among employees. Another is to open a friendly channel for suggestion or complaint by employees. If supervision is not of the best caliber such a channel may not only be the means of discovering the situation but of suggesting the way to correct it. In addition, management is only blind which believes that suggestions of value cannot come from the humblest of employees. Furthermore, management can do well to open channels through which employees may make critical or helpful suggestions—if for no other reason than to provide a safety valve to let off steam. There is not a one of us who is not relieved when we have had the opportunity to air our complaints or our suggestions. —J. W. RUPLEY, Personnel Officer, Farm Credit Administration of Spokane, before the SPOKANE ASSOCIATION OF BANK AUDITORS AND COMPTROLLERS.

The Low Interest Plateau

SINCE the passage of the Banking Act of 1935, the member banks of the Federal Reserve System have been prohibited by act of Congress from paying interest on demand deposits. This provision has greatly reduced the cost of raw materials to the banks of this country and they, in turn, have reduced the cost of the finished product to the consuming public. During the past few years, the best industrial and commercial borrowers have been able to obtain loans running into millions of dollars from the largest banks in the United States for as little as 1 or 1½ per cent per annum. A survey just completed by the Metropolitan Trust Company reveals that the leading commercial bankers of the country from 44 of the principal financial centers expect continued ease of short term money rates during the remainder of 1937, with the possibility of a slight increase running from ¼ to ½ per cent on prime credits.

The payment of interest on deposits is one of the major items of expense in banking. This has been sharply reduced during recent years. Figures supplied by the Federal Reserve Bank of Chicago show that whereas member banks, having $37,117,000,000 in total deposits at the close of 1930, paid out total interest of $748,992,000, in 1936 banks with total deposits of $42,885,000,000 paid out only $184,476,000.

The significance of the prohibition of the payment of interest on demand deposits is realized when it is shown that in 1930 the banks paid an average of 2.02 per cent on total deposits, whereas during 1936 they paid slightly less than ½ of 1 per cent. 1930 was a fairly prosperous year for the banks of the country and the reports of 1936 also indicated that the banks had fair earnings. From these figures, it will be observed that member banks, representing about three-fourths of the total banking resources of the United States, could have extended loans at an average rate 1½ per cent lower than in 1930, or could have purchased securities bearing a rate of 1½ per cent less and still have been just as well off. While doubtless the reason that rates have been so low during recent years is the fact that the supply has greatly exceeded the demand, nevertheless, it would appear that requirement of paying a vastly smaller amount of interest would tend to keep rates on loans and yields on investments at a lower level than prior to the passage of the Banking Act of 1935.

A bank today can afford to purchase a Government bond, bearing a 2½ per cent coupon, just as readily as it formerly bought a Government bond bearing interest at the rate of 4 per cent. The net result is the same. This is not true in the case of an individual.

There is another factor making for a continuance of low interest rates: the desire of the Government to keep the burden of servicing the public debt as light as it can consistently do so and also manage the monetary system in such a manner as to provide cheap credit for agriculture, commerce and industry. And do not overlook the vital necessity of the Government protecting the tremendous investment the banks have in Government bonds. The coupon rate on future Government issues must not be out of line with the present issues, so we may steadfastly anticipate the maintenance of relatively low rates on Government borrowings.

We should realize that the yield from trust investments is definitely on a lower level. There has been a "new deal" as to the level of interest rates. A gross return of less than 4½ per cent on trust investments—over a period of years—is not unreasonable in the light of the changed order of banking, a Federal policy of managed money and the largest public debt in the history of the United States.—REUBEN A. LEWIS, JR., Executive Vice-president, Metropolitan Trust Company, Chicago, before the ANNUAL TRUST CONFERENCE of the PACIFIC COAST AND ROCKY MOUNTAIN STATES.

19,000,000 Interest Coupons

THE Federal Reserve Act provides that the Federal Reserve banks "when required by the Secretary of the Treasury shall act as fiscal agents of the United States." The duties which the Federal Reserve banks perform under this provision always have been extremely important to the Government, and in recent years they have come to absorb a larger and larger part of the attention and time of the Federal Reserve Bank personnel.

In addition to servicing the public debt, providing currency, and acting as depositary of the United States Treasury, the Federal Reserve banks perform a large amount of work for various Government agencies, such as the Reconstruction Finance Corporation, the Federal Farm Mortgage Corporation, the Federal Land banks, the Federal Intermediate Credit banks, the Federal Home Loan banks, the Home Owners' Loan Corporation, and the Public Works Administration. In the year 1936 the Federal Reserve banks handled almost 60,000,000 Treasury checks and over 87,000,000 work relief checks. This was an average of about 40,000 Government checks a day at each of the 12 banks.

The transactions involved in servicing Government securities are of great importance; they comprise receiving applications for new issues, delivery of securities to subscribers, exchanging securities of different denominations, meeting maturities, and paying interest. During 1936 the Federal Reserve banks delivered to subscribers almost 900,000 bonds, notes, certificates, and bills sold by the Treasury or other Government agencies, and redeemed over 800,000 different obligations. They exchanged almost 2,000,000 obligations for the convenience of their holders and paid almost 19,000,000 interest coupons. Last year they prepared and mailed over 25,000,000 bonus bonds to veterans, or practically the entire issue, and they are now engaged in redeeming these bonds.—M. S. SZYMCZAK, Member, Board of Governors, Federal Reserve System, before the NORTH DAKOTA BANKERS ASSOCIATION.

Two Jars of Water

IN my native county in North Carolina there is a waterway that has been a notorious flood stream ever since I can remember. This is Brown Creek, so called from the color of its waters, which are stained by the rich soil washed down from the sloping fields lying within its basin. Several years ago the farms along Brown Creek were literally going downhill. Not all the farmers realized this fact, inasmuch as many of them were in excellent financial condition. But, in the very midst of their prosperity, erosion was steadily and rapidly undermining the basis of their subsistence. Enormous quantities of topsoil were sliding down into the valley, gullies were forming, and crop yields were beginning to decline.

Then in 1934 the farmers in the watershed banded together to start a program of erosion control in cooperation with the Soil Conservation Service. The last three years have seen the most stimulating kind of progress. The farms are again on the upgrade. Many thousands of acres have been terraced to help protect the land through the heaviest rains. Many thousands of acres have been changed from single-crop farming to systematic rotations of cotton and corn grown in alternating years with lespedeza and other legumes. And grains and grasses cover the bare slopes and protect them through the Winter and early Spring. Grassed waterways now conduct excess rainfall slowly and safely off the land without danger of gully formation. Many of the gullies already in existence have been filled with sod or stabilized with grasses and trees. Thousands of acres of the steeper, more erodible crop land have been permanently retired from cultivation to pasture or woodland. And many of the farmers are now actually producing more on the smaller farmsteads than they did three years ago on the larger ones.

But one development in the watershed pleased me more than all others. Brown Creek has lost the reason for its name! This Spring I again visited that old mud-brown stream. But this time I found it running practically clear and free from silt. I took a sample of the clear water from Brown Creek, and another sample from a nearby silt-laden stream that comes out of a watershed where erosion still proceeds unchecked. I brought these specimens back with me to Washington and showed them to the Secretary of Agriculture. He agreed with me that those two jars of water represented in the most vivid form the contrast between conservation and waste.—H. H. BENNETT, Chief, Soil Conservation Service, U. S. Department of Agriculture, before the SOUTH DAKOTA BANKERS ASSOCIATION.

Personal Economics

THE capital which has been accumulated across the ages must be conserved from generation to generation, must be efficiently utilized, and must be augmented by new accumulation, if civilization is to be maintained and man's age-old struggle against poverty and insecurity is to be continued to ultimate victory.

We hear much talk in these unsettled times of what men are pleased to call "the economics of change." But no matter how much change there may be, the economics which will continue essential to a stable society and to orderly progress is the "*personal* economics". No economic system can dispense with the learners, the discoverers, the inventors. Nor can any system get along without the organizers, the administrators, the steady-going and dependable cooperators. And finally the material well-being of men cannot be maintained, under whatever system, without the savers, the accumulators, the conservers. Civilization was built by such as these. Only by such as these can it be maintained.—PETER MOLYNEAUX, Editor, *Texas Weekly* and *Southwestern Banker*, in a nation-wide radio broadcast sponsored by banks.

Education Is the Beginning

THE American republic remains the world's greatest experiment in a people's self-direction. Its initial emphasis was upon liberty—rare then and rare now; its broader vision comprehended a liberty made intelligent and then ennobled through volitional cooperations for the social end. Today we recognize this experiment as more than political, more than legalistic formula. It is an attempt to establish a way of life; it includes every force that relates to human happiness.

A modern conviction, not without basis, is that the ultimate testing of the American way is to be in the field of economics and business. The question yet to be answered is whether a large economic freedom, of opportunity for all and of boundless achievement for the gifted, can be socially fine and socially helpful as well as personally gratifying.

To the fulfillment of the promise of our experiment, in economics as everywhere else, education enters influentially; knowledge of the timeless principles and of the mercurial shifting of economic interest; knowledge of the products of energy, of the process of distribution, of the psychology of consumption; knowledge of the inter-relationships between enterprise, of the inter-relationships between nations.

But education is merely the beginning of fulfillment. Beyond the theories, preludial to the way of life, is the field of social reality in which character looms transcendent, the fortitude of honorable resolution, trustworthiness in external behaviors, flawless integrity of the inner motive. Beyond even the mastery of knowledge and the attainment of character lies the final demand for the success of our economic aspiration, the capacity on the part of the gifted, whether of personal force or material accumulation, to dedicate their expanded privilege to the ideal, to the perfecting of this way of life.—FRANCIS P. GAINES, President, Washington and Lee University, at the commencement exercises of the GRADUATE SCHOOL OF BANKING.

It May Be Old-Fashioned

I BELIEVE that any loan made should serve some useful purpose. If it does not benefit the borrower it is not a good loan. It may be a safe loan, but I should not classify it as a good loan. Although I am in the business of lending, and my livelihood depends in large measure on lending—and of course on collecting the loan to lend to someone else—I view with none too sanguine a feeling the present day tendency to go into debt with the hope of paying out of future salary.

Mortgaging one's earning capacity over a long period of time for purchases which neither earn nor save may show lack of wisdom on the part of the individual. We are not so greatly concerned with him, however; every man must make his own decisions, good or bad. But we are very much concerned if and when any large proportion of a current buying demand represents the purchases of those who merely hope that they will be able to finish paying. An incoming tide often obscures the rocks which endanger a safe passage. We as bankers, therefore, desiring to put our funds to work, and all business men in their laudable desire to see increased activity, shall do well not to lose sight of sound principles and sound practices. Steadily continuing demand, we know, makes for stable business conditions. And stable business conditions make sound credit conditions. I am not altogether satisfied that there is any great stability in demand which represents merely the desire to have.

I cannot quite bring myself to feel that, merely to get money out at interest, we should deliberately encourage extravagance. And I fear that there has been some tendency to do just that thing. The extreme case which comes to mind is an offer to lend money for vacation purposes. A vacation is a useful thing, no doubt. But it would certainly be more in keeping with banking tradition to encourage a man to save for a vacation than to borrow for one. Just one of my old-fashioned notions, perhaps, but there are a lot of old-fashioned things which are still pretty much worth while.

We need not hesitate, I believe, to encourage any man to assume an obligation which he can carry without burdening himself—provided the obligation is assumed for something really useful to him. We are doing him a real service, for example, when through a loan we make it possible for him to own a home—provided it is a home suited to his needs and within his ability to care for.

Just one more idea on what constitutes good lending—another old-fashioned idea, too, perhaps. The goodness of a loan, I believe, depends pretty much, as it always has, upon the man—that fellow who regards his word as good and his debts as sacred, who has character and ability, and refrains from gambling with your money.—HERBERT D. IVEY, President, Citizens National Trust & Savings Bank, Los Angeles, California, before the UTAH BANKERS ASSOCIATION.

Businesslike Farm Credit

THE competition which the Farm Credit Administration system presents to commercial bankers is, in my opinion, more wholesome than detrimental. The F.C.A. has neither the resources nor the desire to monopolize the field of farm credit. The real question is not whether there will continue to be such a Government-sponsored cooperative system of credit for agriculture; the question is whether this system will be run on a business basis, on a basis of true fundamental principles of cooperation, or whether it will be subsidized directly as a Government lending agency.

There is a real job in which we bankers, private and cooperative, can join, and that is the job of helping to educate the farmer, first, to a better and more thorough understanding of the basic principles of sound business credit as compared with time-payment and dealer credit; and second, to a more universal consciousness of the practical means he holds in his own hands to help himself solve many of the major phases of the problem of agriculture.—R. E. BROWN, General Agent, Farm Credit Administration of Spokane, before the OREGON BANKERS ASSOCIATION.

How to Test a Municipal Bond

THE first step in technical analysis of municipal bonds is, perhaps, the matter of overlapping debts. It is absolutely essential that the analysis of the position of a particular municipal bond shall take into account the total debt burden which falls upon a given taxing unit. The burden must include the state debt, the county debt, the city or town debt and the debt of school or other taxing districts, for all of them look to the property within their overlapping boundaries for support for the debt.

In the next place, it is desirable to determine the ratio of total debt to total wealth within a given taxing district. But one cannot stop here, for it is also essential to have a comparison of the rate at which total debt has increased relative to the increase in total wealth. If the debt burden is gaining on the wealth, then it is probable that the burden of taxes will become more acute and as it becomes more acute the willingness to pay will become less dependable in rating a given issue of bonds.

The common measure of municipal debt-paying ability is assessed valuation. It is a very unreliable measure because of the wide variations in the methods employed in making assessments. It is much better to work out the ratio of debt to true value than it is to use assessed values. Such a procedure is essential in making comparisons in order to determine the relative burden of debts in different cities. It is arrived at by taking the basis of actual assessment and calculating from that what true value would be, if it had been employed. It is a faulty measure even for purposes of comparison because no one can say how closely assessments actually conform to the percentages that are actually employed. However, with all of its faults it is superior to assessed values unadjusted.

Because of its defects the levy per capita is utilized as a check. It is much more reliable than the levy per $1,000 of true valuation of property, when it comes to making comparisons between bond issues of different municipalities, for population is much more accurately determined than true value of property. It is therefore suggested that the levy per $1,000 of property value be used in conjunction with the levy per capita. In making this suggestion I am not unmindful that due allowance must be made for the variations as between communities as to their structure of population.

While discussing this matter of population I may as well bring out the desirability of bonds of large cities as compared to small ones. In doing this I realize that exceptions must be allowed for and every banker of much experience realizes this. The chief advantage of the bonds of larger cities lies in the fact that the issues are larger and, therefore, command a better market. So long as liquidity means marketability to so many bankers the structure of the market for a given issue is a vital factor.

A banker may invest in the bonds of small cities more freely, provided he at all times has his hand on the pulse of municipal finance and provided further that he is in a position to carry such bonds to maturity, if need be. But it is certain that the net liquid capital of the bank should be ample to protect the position of the bank so far as its long-term holdings are concerned, for we know that many banks took terrific losses because they bought municipals in the 1920's relying upon their ultimate payment at par and forgetting all about the marketability of these bonds.

Our experience with municipal bonds clearly justifies the conclusion that bonds of cities with diversified industries are to be preferred over those of one-industry cities.

So far as tests are concerned there is no need of going into them in greater detail for they are set forth in the American Bankers Association Booklet No. 19 on Commercial Bank Management, written by J. Harvie Wilkinson and Adrian M. Massie. I recommend the booklet as a whole and also the section on municipal bonds even though I realize that many bankers in small cities will object to certain of the standards there set up.—E. A. Kincaid, Economist, Federal Reserve Bank of Richmond, before the North Carolina Bankers Conference.

Gold Seeks Its Own Level

THE statement is often made that the reason we are getting so much more gold than others is because we are paying more for it. This is only true in a very limited sense. Our Government as such, of course, does not buy gold abroad. It merely takes the gold shipped into this country by corporations and individuals.

The real reason people are sending their funds is because they have more confidence in the stability of our situation than in that of any other country. It would seem that this situation would not be altered by a change in the valuation of gold on our part, except insofar as the confidence in the stability of our economic situation would thereby be destroyed. Many of our people and our Government are worried by the situation. A great increase in credit due to gold imports will tend to raise prices, which, if carried far enough, leads to labor troubles, strikes, justified increases in wages, and situations in which certain fixed income groups are unable to maintain their standards of living.

The method our Government has used to meet the situation at present is by an attempt to sterilize the gold. For the present, the Government can go on with this process, but it is an expensive proceeding. The Government by this time has purchased gold by means of money borrowed on Treasury bills to the extent of over $1,100,000,000. As the average rate which the Government pays on Treasury bills is about ¾ of 1 per cent, the cost to the Government at present is over $8,000,000 a year. Obviously, the Government does not desire to keep on piling up expenses of this kind indefinitely; for one thing it makes it more and more difficult to balance the budget. What else can the Government do to check credit expansion caused by the influx of gold, if the movement is not stopped or does not cease of its own accord?

For one thing, the Government has cut down the excess reserves held by the banks by compelling a larger percentage of the demand deposits to be put aside as required reserves. Under the present law, the Federal Reserve Board cannot proceed any further with this method of increasing required reserves and obviously, regardless of the law, the required reserves cannot be increased beyond a certain point without putting the commercial banks out of business.

Another method suggested at times has been that we should pay less for the price of gold or, in other words, reverse the policy of the Government by raising the gold content of the dollar which is, after all, merely another way of saying that the value of the gold is to be decreased, for if it takes more gold to make up a dollar, then obviously a quantity of gold is less in terms of dollars. If, however, we did any such thing, other countries would meet the situation by following the same policy and we should have a dislocation of our internal situation without any corresponding gain elsewhere. Gold would still continue to come in though it might not be profitable to operate some of the lower grade mines.

The Honorable Robert H. Brand has listed four courses which might be adopted to meet the situation:

1. That the United States and the United Kingdom should go on absorbing whatever gold is on offer at present prices in the hope that ultimately some change in conditions may occur and produce equilibrium, notwithstanding the fact that any tendency, such as is inherent in sterilization, to restrain a gradual rise in general prices must itself be an obstacle to any change; or

2. That, while adopting this policy, they should not merely remain passive, but accompany it with active and positive steps to secure a better distribution of gold; or

3. Supposing they arrive at the conclusion that a sufficient redistribution cannot be achieved before they are overburdened with gold, that they should reduce the price of gold in terms of currencies in the hope of thereby reducing supplies; or

4. That some scheme for the restriction or regulation of gold production should be applied internationally by agreement between gold producers or their governments.

To this ought to be added what seems to me the most important method; namely, some step toward permanent international stabilization of currencies. Unless people are given confidence in the ultimate stability of the major currencies in the world every means sought to regulate the flow of gold will be just a temporary expedient.

The main reason that we are receiving such masses of gold is because people do not have confidence in their own situation and one of the main causes for this lack of confidence is the fluctuating value of currencies. One of the great difficulties in obtaining permanent stability at the present time is the British situation. In the long run, Great Britain, which depends so largely on international trade, desires to have a pound sterling of rather lower value in relation to the dollar than was true in the past—say a pound sterling which would be worth somewhere between $4 and $4.50 rather than $4.86⅔. At least temporarily such a development would aid British export trade.

On the other hand, Great Britain is engaged in rearmament on a huge scale. This requires the importation of unusually large quantities of raw materials from other countries. Consequently, at the present time, Great Britain is very glad to have a pound sterling high in value in relation to other currencies because it means in terms of her own currency that she pays less for imported goods.

The question of an international agreement to ration gold production does not take sufficient account of the Russian situation. Russia has become one of the greatest gold producing countries in the world. It may be that this is but a temporary phenomenon; little evidence seems to be obtainable either way on this point.

In this country, consideration has been given to the possibility of checking the further influx of gold by imposing some special form of tax on the purchase of our securities by foreign investors or on money deposited in the United States by foreigners.

Such a move is entirely possible, but it would simply mean another prohibition to the free movement of capital and goods from country to country and thus run counter at least in spirit to the policy advocated by Secretary of State Hull.

The suggestion is made that single-handed we decrease the value of gold. Aside from all other questions it does not seem to me that such a setup would be politically feasible. The Government would thereby relinquish in part or in whole the profit of $2,800 million which resulted from the previous devaluation of the dollar and in addition all the gold taken in since the devaluation would represent a loss to the Government which would make it just that much more difficult to balance the budget.

My own conclusion is that at present the best thing for us to do is to continue having the Government sterilize the gold coming in. I think the influx will slacken due to causes among which the principal are: First, rising costs will diminish production of gold, and, secondly, the large hoards of gold in India and elsewhere either have been or will be soon exhausted.—Walter Lichtenstein, Vice-president, The First National Bank of Chicago, before the Chicago Association of Commerce.

Budget Consciousness

THERE is such a thing as being "budget conscious". It places the department heads on their toes to keep within the specified limits.

A short time ago, our purchasing agent, while checking over his purchases of supplies, called my attention to an item on which he had saved almost half, simply by watching the corners and buying to the best advantage. Certainly a good purchasing agent should do this, with or without a budget, but the budget, in my estimation, gives a strong incentive to save, wherever a saving may be made, with all due regard to proper quality and service. Even though some additional expenditure may seem highly desirable and justified, the department head will think twice before attempting to get authorization from the bank president.

We find new suggestions coming along of savings that may be made here and there, some of little value, of course, but all reflecting a budget consciousness that is certainly very desirable.—M. E. Drake, Union National Bank, Kansas City, Missouri, before the Kansas City Conference of Bank Auditors and Controllers.

Banks Need Profits to Live

THE business of a bank is to make profits. A bank that is not profitable is a failure and must eventually go out of business. A good bank, therefore, may be described as one that earns profits. These statements are commonplace, but they may nevertheless be helpful if we will draw the necessary conclusions from them.

In the first place, this principle of profit making lies at the heart of the question of whether we have too many banks, of the chartering by our state and Federal authorities of new banks where they are not needed. It seems self-evident that no new bank should be chartered in any community where the existing bank or banks will thereby be rendered unsafe, that is, will be deprived of the ability to make money by the presence of a new bank.

The supervising authorities are in a position to know if there is room for a new bank. At least the Comptroller's office knows the situation with respect to the national banks in any community and the state banking department has knowledge of the condition of the state banks. The difficulty in the past has been that of bringing about cooperation between the national and the state authorities. Instead of cooperation there has too often been competition of a destructive sort. The rivalry has not been to secure the establishment of sound banks, but to secure the establishment of banks of the state or the national system, as the case might be. It may be too much to expect that these rival supervising authorities should not go to extremes in the effort to advance the interests of the respective systems, but perhaps through the medium of some governmental authority, the F.D.I.C., for example, which has not the interest of either system as against the other, the power may be given to check unwise chartering of new banks.

In the second place, if we are to have safe banks, competition from Government lending agencies must be curtailed. Government has an advantage which private capital can never overcome in its ability to secure funds at a lower rate of interest.

At the present time we find a rather chaotic and illogical condition existing with respect to Government lending agencies. In 1933 there was a real need in many localities and in some fields for loans directly through governmental agencies. It is possible that some of these agencies have served and will continue to serve a useful purpose and should become permanent. Others, undoubtedly, are affording the banks unfair competition.

In the third place, it goes almost without saying that banks should be properly capitalized to furnish that indispensable buffer to take care of losses and to protect the depositor. There is, of course, a limit beyond which it is not profitable to go in the capitalization of banks. Private capital must receive an adequate return or else it will not be interested in entering a particular field, and it would be a most unhappy day for the banking business if private capital should cease to desire bank stocks as an investment because of the low earnings of banks. Consequently it would seem to be most unwise to attempt to establish by law or regulation any fixed ratio between deposits and capital. When there is a very low return of earnings on funds available, too high a ratio would prove a hindrance to the acquisition of new capital. Deposits frequently rise, as in recent months, during a period when earnings are extremely low and when it would be difficult to enlist additional capital funds.

A fourth element in a profitable bank is good management. The older we are the more likely we are to realize that one of the most difficult things to secure in the business world is good management. It does not matter whether it be in a bank, a manufacturing plant or a store, success depends largely upon the quality of management. In a bank that management must display itself in at least three ways: in the making of loans, in the making of investments and in operating economically. Of these three fields the field of investment is becoming more and more important and in recent years has overshadowed loans. Should this condition continue, a new type of banker will of necessity find his way to the front.

Finally, a bank must needs be very careful in its policy regarding the distribution of its earnings. Earnings must be largely conserved and not too much paid out in dividends. —EDWARD ELLIOTT, Vice-president, Security First National Bank of Los Angeles, before the UTAH BANKERS ASSOCIATION.

Cost Guessing Is Costly

IT is hardly necessary to say that any plan for the analysis of accounts, to be fair to both the depositor and the bank, should be based on facts rather than on figures arbitrarily pulled out of thin air or adopted from someone else without knowledge as to whether the figures so adopted are reasonable to use or whether such figures have been pulled out of thin air themselves in the first instance.

Normally, the first step in analysis is to use one item cost, this being the average cost of handling all types of items, and usually is .03, .04 or .05 per item. Average item costs are not accurate, even when worked out under sound cost accounting, because they assume that all types of items cost the same to handle. Actually, with a .04 average item cost, a bank may show a cost of .005 to handle a clearinghouse item deposited and .075 to cash a check drawn on itself.

In larger banks, and in smaller banks that wish a more accurate basis of analysis than that given by the use of an average item cost, the activity expense is sometimes broken down to provide a separate cost for checks deposited and checks paid. This plan has the same weakness that the use of one average item cost has in that it is based on the false assumption that all items cost the same to handle. It is merely using two average item costs instead of one.

Accurate analysis, particularly of large or active accounts, requires that item costs be determined separately for each type of item handled. This is accomplished by allocating the activity expense, being the cost of handling items, to each of the subdepartments of the commercial department handling items. In the simplest case, this cost is divided into tellers, block, transit, and bookkeeping costs. The total cost of each

of these four subdepartments, divided by the number of items handled by the subdepartment, will produce the cost of putting an item through that subdepartment alone. If we have the cost of handling an item in each of these four groups, we then can determine the cost of handling any specific type of item by adding together the cost of each group handling it. For example, the cost of handling a deposit slip would be the cost of handling an item by a teller, plus an item in the block department, plus an item in the bookkeeping department.

The outstanding recommendation for a plan of analysis using one average item cost, is its simplicity, but this is gained at the sacrifice of accuracy. This plan is usable in analyzing the average run of accounts that are not particularly active.

The outstanding recommendation for a plan of analysis using a specific cost for each type of item, is its accuracy. True, it is a little more complicated than the plan using one average item cost. However, the use of specific item costs becomes necessary in analyzing large accounts, particularly, if the depositor deals with a number of banks. It is equally as necessary that specific item costs be used in analyzing accounts that are very active, particularly, if this activity centers in one or two types of items.

The handling of currency on deposit frequently presents a problem in account analysis. How should this factor be cared for in the analysis? Some charge so much for cash when it appears on a deposit slip, irrespective of the amount or its composition; while others charge so much per $100 of cash. We prefer to ignore cash unless it is a reasonable factor, covering it in the charge for handling the deposit slip. Where it is a factor in handling an account, then the average time necessary to balance the cash when deposited is noted for a week or more. A charge is then made at so much per minute, for example, four minutes at six cents per minute would create a charge of $.24 for handling the average cash deposit of this depositor. This minute cost is arrived at by reducing the cost of operating tellers to so much per hour and then per minute. About $.06 per minute is an average figure in a medium size bank.

After analyzing accounts for a while and recovering losses from depositors, a bank comes to the point of realizing it is just breaking even and then proceeds to add a profit to its analysis charge. Profit is usually added in one of three ways, as follows:

(1) A percentage of the average ledger balance, usually 1 per cent, 1¼ per cent or 1½ per cent per annum.

(2) Where the balance is low, then 25 per cent to 50 per cent of the cost of handling the account, consisting of activity, size and maintenance cost combined, if this figure exceeds the profit computed under No. 1.

(3) A percentage as in No. 1, but based on the balance that should have been maintained to make an account desirable. This plan results in the collection of the same profit from every account in proportion to the work done and service rendered, irrespective of balances maintained. One account pays its profit in the charge, while another may pay it from the balance carried.

When considering item costs and other costs used in analyzing accounts, it is well to remember that costs need not bear any relation to dollars of deposit, but will bear a direct relation to volume of work handled. Volume may be increased to a point that produces an exceedingly low item cost, but at the same time constantly reduce profits. This comes about by an increase in total expense faster than the increase in income from additional deposits, at the same time that item costs are reduced by items handled increasing faster than the increased expense.—JOHN J. DRISCOLL, JR., of Driscoll, Millet and Company, before the NORTH CAROLINA BANKERS CONFERENCE.

Bankers' Mutual Responsibility

NOT the least of the trouble which underlies our banking ills is the lack of sufficient self-restraint. In banking this deficiency has found expression throughout the years in a passion for size. Because of this passion we have engaged in "clever," but unwholesome practices which, while giving us a momentary advantage over our competitors, in the end resulted in useless waste.

These practices run the whole gamut of excessive loans, free service, thirst for abnormal profits, speculation, lack of cooperation with our competitors, nonparticipation in the activity of our bankers' association, and, generally, the disposition to seek our self-aggrandizement without thought of our responsibility to the banking fraternity as a whole. Common problems incident to the bank holiday, and the necessity for unity as against those who chastise us en masse, have done much to cure this defect, but there is still ample room for improvement. A closer cooperation and self-restraint is essential for our preservation.

And then, together, ours is the responsibility of furnishing the nation with a banking system adequate and modern enough to serve a progressive civilization. This must be preceded by intensive and relentless research in order that we may first know our job. We have but to review the history of American business, particularly for the past 25 years, to reach the conclusion that in most branches of industry research has supplanted guesswork, and has become one of the most important foundation stones of modern commerce. The most casual view discloses that all phenomena of life are being subjected to microscopic examination in the fields of medicine, chemistry and technology, to say nothing of the excursions into the realm of social science and human relations.

And yet the banking business—this greatest of industries —is without a laboratory in keeping with its importance. To say this is not to minimize the relentless efforts which have been expanded by earnest individuals and groups who have been at work in a sincere desire to so perfect our banking and monetary systems that they would render the maximum service to the Republic. Instructive studies have been released from time to time by the American Bankers Association, the state bankers associations, the Association of Reserve City Bankers, and others, with respect to special phases of banking and finance, the value of which should not be underestimated.

Indeed, it may be said that because these activities have in a sense seemed to fill the need, no large, comprehensive effort really worthy of the banking profession has been undertaken; and yet, if banking is to discharge its obligation of furnishing a dynamic financial leadership for the nation, it is high time that a broad, inclusive laboratory of banking research be established, and that each *individual* in the banking business realize his *individual* responsibility for the ongoing of the business as a whole.—WOOD NETHERLAND, Vice-president, Mercantile-Commerce Bank & Trust Company, St. Louis, before the UTAH BANKERS ASSOCIATION.

Tin Box Insecurity

IN connection with a program for promotion of safe deposit business we made a field survey. The purposes of this survey were, first, to find out why people do or do not rent safe deposit boxes; second, what use do they make of the boxes and, third, we wanted to obtain some authentic data on which to base our advertising appeal. From this data we obviously could obtain some dramatic appeal to be used in a radio story.

The survey was conducted in approximately 20 cities in Pennsylvania, New York, New Jersey, Connecticut, Massachusetts, Rhode Island and Maine. These questions were asked of consumers, of representatives of banks, safe deposit companies and police departments. We were careful in selecting cities of different sized population, large as well as small, and of people in different income levels. Thirty-one per cent of the people interviewed had incomes between $2500 and $5000. Twenty-six per cent were under $2500 and 29 per cent were between $5000 and $10,000. Only 13 per cent of all of those interviewed had incomes of over $10,000. We found out that over 90 per cent of the upper income level rented safe deposit boxes; that 68 per cent of those between $5000 and $10,000 rented boxes and that 46 per cent between $2500 and $5000 rented boxes. Below the figure of $2500, however, the drop in box owners was very marked, for only 25 per cent of those in the lower income level enjoy the security of a safe deposit box.

In our interviews we found an astonishing list of articles were kept in safe deposit boxes. Eighty-seven per cent of those interviewed mentioned insurance policies, the other items ranging from securities, real estate deeds, wills, etc., to birth certificates, heirlooms, income tax returns, mortgages, and singularly enough, Social Security cards. Nearly 10 per cent of those interviewed mentioned this one item. Over 40 different articles were mentioned as important items to be kept in a safe deposit box.

When we found a person who did not own a safe deposit box we asked him why he did not own one. Fifty per cent of them replied they really did not need one as they had no valuables; 18 per cent said they kept their valuables in an office or store safe, and 11 per cent said they had a strong box at home. In passing we might say that the strong box at home is as much security as a shoe box. Fifty-eight per cent said they did not intend to rent a safe deposit box and only 10 per cent said they did. This again has bearing on our educational field and convinces us more than ever that we have to sell this idea as forcefully as possible. Thirty per cent of those interviewed said they did not know what a safe deposit box cost and others said they cost $5, $10, $7.50, and so on. Again, we find a need for education.

In trying to get some dramatic data for use on the radio, one of the questions asked in our survey was, "Please tell us any interesting or exciting experiences you can have had due to not having rented a safe deposit box". Obviously the answers to these questions could not be tabulated but we have obtained some very interesting experiences which can be used in radio advertising.

A typical case was that of the policeman who at one time lost confidence in the safety of the banks. He did not think of a safe deposit box, and formed the habit of placing his savings in empty tin cans among the canned goods in his pantry, but while away on his vacation, a thief, looking for food, found his savings and took them. The money was never recovered.

We found in our survey that 11 per cent of those who are safe deposit box owners also have safes in their homes and that 15 per cent of those who do not rent safe deposit boxes also have safes in their homes. Forty-two per cent of those who rent safe deposit boxes have lock-boxes at home and 54 per cent who do not rent safe deposit boxes have lock-boxes at home. This clearly indicates that our really stiff competition is in the portable "tin" box which is not difficult for a thief to steal.

Conclusions from the survey were:

That since 90 per cent in the $10,000 class have safe deposit boxes, the big appeal must be to the lower income groups.

That over 10 per cent have made up their minds to rent boxes, and 31 per cent are "on the fence". Even those who have not planned to rent boxes are prospects.

That over half of the non-renters keep their valuables in lock-boxes at home. This habit should be exposed.

That almost half of the renters keep some of their valuables in lock-boxes at home. Education on the proper use of safe deposit boxes is needed.

That a large number have used the doubtful protection of the office safe at one time or another—need for education.

That over 30 per cent have no idea of the cost of a safe deposit box, and other estimates range from $1.00 to more than $10.00 a year—need for education.

That safe deposit boxes and portable lock-boxes are used for a wide variety of purposes, chiefly the protection of items of value only to the owners—insurance policies, deeds, wills, etc.—DON C. HIGHT, Vice-president, McCann-Erickson, Inc., before the MICHIGAN BANKERS ASSOCIATION.

Instalment Expense

THE three largest sales finance companies in the country had average outstandings (i.e., average investment throughout the year in instalment notes receivable including wholesale paper) of $974,000,000 in 1936, according to their published reports. Operating expense for the year, including relatively small credit losses, amounted to $49,500,000, or slightly more than 5 per cent. Deducting the wholesale paper because expense of handling it is negligible, the operating expense comes to approximately 6 per cent per annum on the average investment in instalment receivables.

Considering the tremendous volume of business handled by these three companies, aggregating in 1936 more than three and one-third billion dollars, it is doubtful if a smaller portfolio of instalment receivables could be handled more cheaply by a bank.—DUDLEY CATES, Vice-president, Commercial Investment Trust Corporation, before the University of Chicago CONFERENCE ON CONSUMER FINANCING.

Cooperation

IN the Barkley Bill, corporate trust officials face an extension of Federal supervision into their field. Few of us believe that such supervision in our field is necessary or even desirable from the standpoint of the investor. However, extension of Federal control over business is manifestly one of the fundamental concepts of the present Federal administration and in approaching the problem we have felt that it was not our function to argue a theory of government but rather to do our part in an effort to make the Barkley Bill both livable and workable.

Is it wise or proper for us to object to an honest effort so to control corporate trusteeships as to eliminate the mistakes of the past? My answer is that we should cooperate with such an effort even though many of us may feel that it would have been wiser first to have permitted the banks to have tried out their proposal of voluntary control in cooperation with the Investment Bankers Association and as to member institutions under the supervision of the Board of Governors of the Federal Reserve System, and even though we may believe that control, if necessary, should be state rather than Federal. The American Bankers Association has taken this position.

The Securities and Exchange Commission has been considering the bill for over a year and has been working on its drafting since before the first of the year.

The Commission has permitted the American Bankers Association to work with it on the problem since last March. In these conferences we have found in Mr. Douglas, the acting chairman, and his associates a frankness, a willingness to understand our problems, and a desire to cooperate in fairly meeting them, which was most heartening. We on our part have tried to be equally frank, fair and cooperative. While it is perhaps too much to expect that the first effort at legislation of this type will be satisfactory to every one, or free from errors, which experience will disclose, all who are fair minded must admit that frank cooperation between the Government and business on such a problem is wise and always to be desired.—R. GREGORY PAGE, Chairman, Committee on Mortgage Trusteeships, Trust Division, American Bankers Association, and Vice-president, Bankers Trust Company, New York, before the ANNUAL TRUST CONFERENCE of the PACIFIC COAST AND ROCKY MOUNTAIN STATES.